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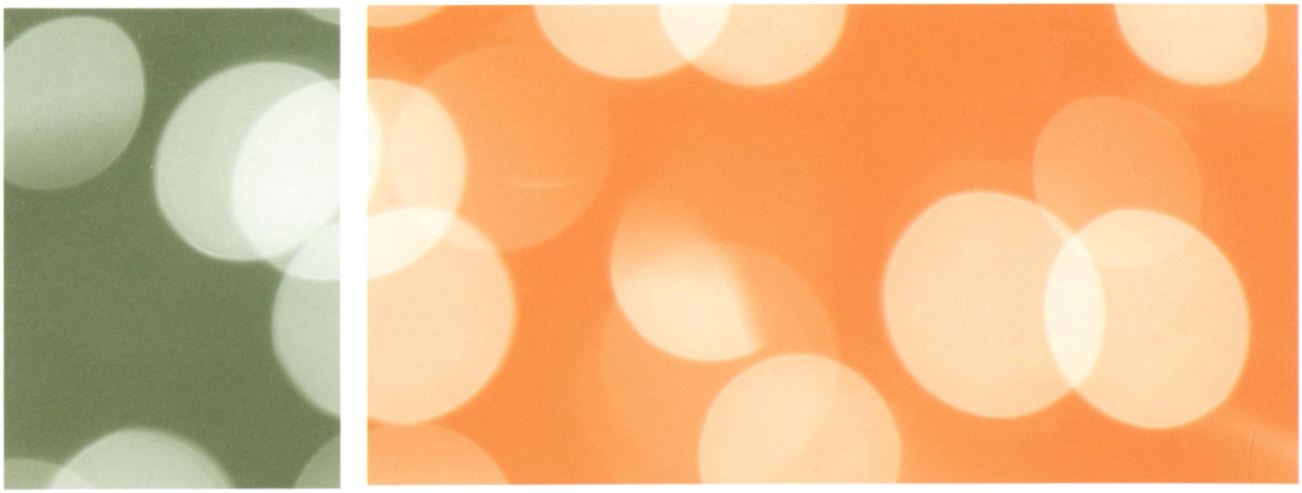
Checklists and illustrative financial statements : Defined benefit pension plans, March 2008 edition

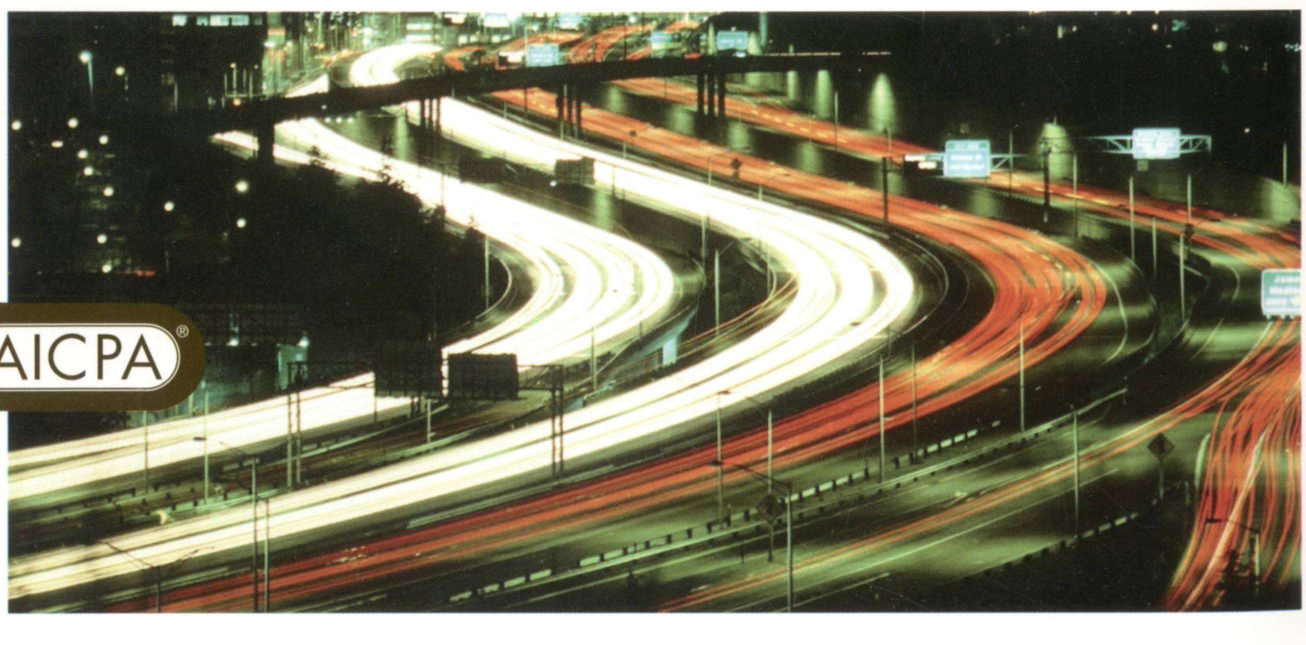
American Institute of Certified Public Accountants



CHECKLISTS & ILLUSTRATIVE FINANCIAL STATEMENTS

Defined Benefit Pension Plans

MARCH 2008



AICPA

American Institute of Certified Public Accountants

Defined Benefit Pension Plans – March 2008

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CHECKLISTS & ILLUSTRATIVE FINANCIAL STATEMENTS

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AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS

AICPA®

Checklists and Illustrative Financial Statements for Defined Benefit Pension Plans has not been approved, disapproved, or otherwise acted upon by any senior technical committees of the American Institute of Certified Public Accountants or the Financial Accounting Standards Board and has no official or authoritative status.

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FSP Section 7000

Checklists and Illustrative Financial Statements for Defined Benefit Pension Plans

Acknowledgments

The AICPA gratefully appreciates the invaluable assistance JulieAnn Verrekia, CPA, provided in updating and maintaining the guidance in this checklist.

Description

.01 Employee benefit plans include defined benefit pension plans, defined contribution pension plans, and health and welfare benefit plans. Defined benefit pension plans provide a promise to pay to participants specified benefits that are determinable and are based on such factors as age, years of service, and compensation.

.02 Defined benefit pension plans may be single employer plans or multiemployer plans. In addition, these plans may be funded through accumulated contributions and investment income (self-funded plans), insurance contracts (insured plans), or a combination of both (split-funded plans). Contributions may be required from both employers and participants (contributory plans) or from employers only (noncontributory plans).

.03 Traditional defined benefit pension plans provide benefits that are defined in terms of a percentage of final average compensation or career average compensation, or as a flat dollar benefit per year of service. Recently, new types of benefit formulas have become more popular, including—

a. ***Cash Balance Plans.*** A cash balance plan is a special form of career average compensation plan. Typically, a cash balance defined benefit pension plan maintains hypothetical "accounts" for participants. The employer credits participants' "accounts" with a certain number of dollars each plan year, and promises earnings at a specified rate. Interest on the "account" balance is credited at a stated rate, which may be different from the plan's actual rate of investment return.

b. ***Pension Equity Plans.*** A pension equity plan is a defined benefit pension plan that has many of the advantages of the cash balance plan, but the benefit formula is similar to a final pay program rather than a career average cash balance program. Under this arrangement, a participant is credited with "points" based on age, service or both. On termination of employment, a participant's final average compensation is multiplied by his or her accumulated points to determine a hypothetical account balance. This balance normally may be distributed as a lump sum or converted to an annuity.

.04 The Pension Benefit Guaranty Corporation (PBGC) guarantees participants in most defined benefit pension plans against the loss of certain pension benefits if the plan terminates, and it administers terminated plans in certain circumstances.

AICPA Employee Benefit Plan Audit Quality Center

.05 The AICPA Employee Benefit Plan Audit Quality Center (the center) is a firm-based, voluntary membership Center created in March 2003 with the goal of promoting quality employee benefit plan audits. Center member firms demonstrate their commitment to Employee Retirement Income Security Act of 1974 (ERISA) audit quality by joining the center and agreeing to adhere to its membership requirements. The center now has over 1,500 members in all 50 states, the District of Columbia, the U.S. Virgin Islands, and Puerto Rico. Visit the center Web site at www.aicpa.org/ebpaqc to see a complete list of center members under membership and to preview center benefits.

Regulatory Requirements

.06 ERISA provides for substantial federal government oversight of the operating and reporting practices of employee benefit plans. Under ERISA, the Department of Labor (DOL) and the Internal Revenue Service (IRS) have the authority to issue regulations covering reporting and disclosure requirements.

.07 ERISA generally requires that the administrator of an employee benefit plan prepare and file various documents with the DOL, the IRS, and the PBGC. The annual report to be filed for employee benefit plans generally is the Form 5500 Series. The Form 5500, a joint-agency form developed by the IRS, the DOL, and the PBGC, may be used to satisfy the annual reporting requirements of the Internal Revenue Code (IRC) and titles I and IV of ERISA. (See paragraphs .22–.25 for a discussion of the Form 5500.)

Financial Accounting and Reporting Standards

.08 Financial Accounting Standards Board (FASB) Statement of Financial Accounting Standards (SFAS) 35, *Accounting and Reporting by Defined Benefit Pension Plans,* as amended, is a source of established generally accepted accounting principles (GAAP) for defined benefit pension plans. The AICPA Audit and Accounting Guide *Employee Benefit Plans* (the guide) also is a source of established GAAP for defined benefit pension plans.[1]

.09 Statement of Position (SOP) 99-2, *Accounting for and Reporting of Postretirement Medical Benefit (401(h)) Features of Defined Benefit Pension Plans* (AICPA, *Technical Practice Aids,* ACC sec. 10,780), specifies the accounting for and disclosure of 401(h) features of defined benefit pension plans, by both defined benefit pension plans and health and welfare benefit plans. SOP 99-2 has been integrated into chapters 2, 4, and appendixes D and F of the guide.

.10 SFAS 133, *Accounting for Derivative Instruments and Hedging Activities,* as amended, establishes accounting and reporting standards for derivative instruments. It requires that an entity recognize all derivatives as either assets or liabilities in the statement of financial position and measure those instruments at fair value.

.11 SFAS 149, *Amendment of Statement 133 on Derivative Instruments and Hedging Activities,* amended SFAS 133 to say the following:

> *Certain investment contracts.* A contract that is accounted for under either paragraph 4 of SFAS 110, *Reporting by Defined Benefit Pension Plans of Investment Contracts,* or paragraph 12 of SFAS 35, *Accounting and Reporting by Defined Benefit Pension Plans,* as amended by SFAS 110, is not subject to this Statement. This exception applies only to the party that accounts for the contract under SFAS 35, or SFAS 110.

.12 SFAS 161, *Disclosures about Derivative Instruments and Hedging Activities,* amends and expands the disclosure requirements of SFAS 133 for derivative instruments and hedging activities. The statement requires qualitative disclosures about the objectives and strategies for using derivatives, quantitative disclosures about fair value amounts of and gains and losses on derivative instruments, and disclosures about credit-risk related contingent features in derivative agreements.

FASB Accounting Standards Codification™

.13 On January 15, 2008, FASB launched the 1-year verification period of the *FASB Accounting Standards Codification™* (codification). The codification is a major restructuring of accounting and reporting standards designed to simplify user access to all authoritative U.S. GAAP by providing all authoritative literature in a

[1] See paragraphs .13–.16 for a discussion of the *Financial Accounting Standards Board (FASB) Accounting Standards Codification™* project.

topically organized structure. The codification includes all accounting standards issued by a standard-setter within levels A–D of the current U.S. GAAP hierarchy, including FASB, AICPA, Emerging Issues Task Force (EITF), and related literature. The codification also includes relevant authoritative content issued by the Securities and Exchange Commission (SEC), as well as selected SEC staff interpretations and administrative guidance.

.14 The codification does not change GAAP but rather it reorganizes thousands of GAAP pronouncements into approximately 90 topics. Therefore, the 1-year verification period is not to debate the underlying requirements of GAAP but rather to verify that the codification appropriately captures them and accurately reflects existing U.S. GAAP for nongovernmental entities. The verification period is also a period for constituents to acquaint themselves with the new structure and to submit feedback regarding any issues before the codification content becomes authoritative. At the end of the 1-year verification period, FASB is expected to formally approve the codification as the single source of authoritative U.S. accounting and reporting standards, other than guidance issued by the SEC. At that time, FASB will supersede all then-existing non-SEC accounting and reporting standards. All other nongrandfathered, non-SEC accounting literature not included in the codification will become nonauthoritative. FASB expects to approve the codification in April 2009.

.15 Plan accounting may be found in the following sections of the codification:

- Section 960—Defined Benefit Pension Plans
- Section 962—Defined Contribution Pension Plans
- Section 965—Health and Welfare Benefit Plans

.16 Constituents are encouraged to use FASB's online codification research system free of charge and provide feedback to FASB on the codification. The codification research system includes general information on how to use the online research system and special features such as cross reference reports, which show where current standards reside in the codification. Readers are encouraged to register and access the codification at www.fasb.org/project/codification&retreival_project.shtml.

AICPA Technical Practice Aids

.17 Technical Questions and Answers (TIS) section 6930, *Employee Benefit Plans* (AICPA, *Technical Practice Aids*), contains helpful guidance in the form of questions and answers relating to employee benefit plan accounting, auditing and regulatory matters. These nonauthoritative Technical Practice Aids (TPAs) are based on selected practice matters identified by AICPA staff and various other bodies within the AICPA, including the AICPA Employee Benefit Plans Expert Panel.

Accounting and Reporting by Defined Benefit Pension Plans

.18 Defined benefit pension plan financial statements intended to be presented in accordance with generally accepted accounting principles should be prepared on the accrual basis and should include the following:

- A statement of net assets available for benefits as of the end of the plan year (ERISA requires that this statement be presented in comparative form)
- A statement of changes in net assets available for benefits for the year then ended
- Information regarding the actuarial present value of accumulated plan benefits
- Information regarding the effects, if significant, of certain factors affecting the year-to-year change in accumulated plan benefits

.19 Information regarding the actuarial present value of accumulated plan benefits and changes therein may be presented in the financial statements or in the notes. Further, the accumulated benefit information may be presented as of the beginning or end of the plan year. However, an end-of-year benefit information date is considered preferable. If the information is as of the beginning of the year, prior year statements of net assets and changes therein are also required. Otherwise, comparative statements are not required (however, see paragraph .22 below). Exhibit D-7 in appendix D of the guide illustrates an appropriate financial statement presentation when beginning-of-year benefit information is selected.

.20 Except as noted in the following paragraph, plan investments are generally presented at their fair value at the reporting date and assets used in the administration of the plan are stated at cost less accumulated depreciation and amortization.

.21 Insurance contracts, defined in SFAS 60, *Accounting and Reporting by Insurance Enterprises*, should be presented in the same manner as specified in the annual report filed by a plan with certain governmental agencies pursuant to ERISA, consistent with the requirements of DOL Form 5500. A plan not subject to ERISA should present its insurance contracts as if the plan were subject to the reporting requirements of ERISA.

.22 In addition to the reporting requirements of SFAS 35, as amended, defined benefit pension plans may have reporting requirements under ERISA. The annual report to be filed for employee benefit plans generally is the Form 5500 series.

.23 The agencies have released tips to avoid common filing errors and frequently asked questions (FAQs) for small pension plans that use the audit exception to assist filers in complying with their reporting obligations. The tips and FAQs will help plans avoid basic filing errors and explain the conditions that small pension plans must meet to be eligible for a waiver of the annual audit requirement. The FAQs also include model summary annual report language for the required participant notice under the small plan audit exception. This guidance may be found on the EBSA Web site at www.dol.gov/ebsa.

.24 The DOL, IRS, and PBGC have released the 2007 Form 5500 return and reports, schedules, and instructions to be used by employee benefit plans for plan year 2007 filings. The IRS has also released the Form 5500-EZ return and instructions to be used by certain one-participant retirement plans for plan year 2007 filings. The modifications to the Form 5500 for plan year 2007 are described under "Changes to Note" in the 2007 instructions and are summarized in the Audit Risk Alert *Employee Benefit Plans Industry Developments—2008* (product no. 022418).

.25 The Form 5500 continues to require that certain supplemental schedules be attached to the annual form 5500 filing. Such schedules include:

- Schedule H, line 4i—Schedule of Assets (Held at End of Year)[2]
- Schedule H, line 4i—Schedule of Assets (Acquired and Disposed of Within the Plan Year)
- Schedule H, line 4j—Schedule of Reportable Transactions[3]

The following schedules are required to be reported on Schedule G:

- Schedule G, Part I—Schedule of Loans or Fixed Income Obligations in Default or Classified as Uncollectible
- Schedule G, Part II—Schedule of Leases in Default or Classified as Uncollectible
- Schedule G, Part III—Schedule of Nonexempt Transactions

Practice Tips

Reporting of Delinquent Participant Contributions (Schedule H and Schedule I)—Information concerning delinquent participant contributions reported on line 4a is not required to also be reported again on line 4d (or Schedule G). See the frequently asked questions about reporting delinquent participant contributions on the Form 5500 at the EBSA Web site at www.dol.gov/ebsa/faqs/faq_compliance_5500.html.

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[2] **Practice Tip**—Historical cost information is not required on the Schedule H, line 4i—Schedule of Assets (Held at End of Year) for participant-directed investments.

[3] **Practice Tip**—Participant- or beneficiary-directed transactions are not required to be taken into account for purposes of preparing the schedule of reportable transactions. In a plan's initial year, the 5 percent threshold for the schedule of reportable transactions is based on the *end-of-year* balance of the plan's assets.

Please refer to the instructions to Form 5500 for schedule requirements. Information copies of the forms, schedules and instructions are available on EBSA's Web site at www.efast.dol.gov. Filers may also order forms and IRS publications twenty-four hours a day, seven days a week, by calling 800-TAX-FORM (800-829-3676).

Note: This publication was extracted from sections 7,000 through 7,400 of the AICPA *Financial Statement Preparation Manual* (FSP).

FSP Section 7100
Instructions

General

.01 This publication includes:

- **Financial Statements and Notes Checklist**—For use by preparers of defined benefit pension plan financial statements and by practitioners who audit them as they evaluate the adequacy of disclosures.
- **Auditors' Report Checklist**—For use by auditors in reporting on audited defined benefit pension plan financial statements.
- **Illustrative Financial Statements and Auditor's Reports**—Illustrating a defined benefit pension plan financial statement and auditor's reports.

.02 The checklists and illustrative financial statements have been developed by the staff of the Accounting and Auditing Publications Team of the AICPA as nonauthoritative practice aids to be used as a memory jogger to aid in the audit of financial statements of defined benefit pension plans.

This edition of the financial statements and notes checklists and auditor's report checklist have been updated to include certain changes necessary due to the issuance of authoritative pronouncements. Relevant accounting and auditing guidance contained in official pronouncements issued through March 31, 2008, have been considered in the development of this publication. This includes relevant guidance issued up to and including the following:

- Financial Accounting Standards Board (FASB) Statement of Financial Accounting Standards (SFAS) 161, *Disclosures about Derivative Instruments and Hedging Activities—an amendment of FASB Statement No. 133*, and revised FASB Statements issued through March 31, 2008, including:
  - FASB Statement No. 141 (revised 2007), *Business Combinations*
- FASB Interpretation (FIN) No. 48, *Accounting for Uncertainty in Income Taxes—an interpretation of FASB Statement No. 109*
- FASB Technical Bulletin (FTB) No. 01-1, *Effective Date for Certain Financial Institutions of Certain Provisions of Statement 140 Related to the Isolation of Transferred Financial Assets*
- FASB Staff Positions (FSPs) issued through March 31, 2008
- FASB Emerging Issues Task Force (EITF) consensuses adopted through the March 2008 meeting
- AICPA Statement on Auditing Standards (SAS) No. 114, *The Auditor's Communication With Those Charged With Governance* (AICPA, *Professional Standards*, AU sec. 380)
- AICPA Statement of Position (SOP) 07-1, *Clarification of the Scope of the Audit and Accounting Guide* Investment Companies *and Accounting by Parent Companies and Equity Method Investors for Investments in Investment Companies* (AICPA, *Technical Practice Aids*, ACC sec. 10,930)
- AICPA Practice Bulletin (PB) No. 15, *Accounting by the Issuer of Surplus Notes* (AICPA, *Technical Practice Aids*, PB sec. 12,150)

- AICPA Audit and Accounting Guide *Employee Benefit Plans* (with conforming changes as of March 1, 2008)

The checklists and illustrative financial statements should be modified, as appropriate, for subsequent pronouncements. In determining the applicability of a pronouncement, its effective date should also be considered.

Instructions

.03 The checklists consist of a number of questions or statements that are accompanied by references to the applicable authoritative pronouncements. The checklists provide for checking off or initialing each question or point to show that it has been considered. Users should check: "yes" if the disclosure has been appropriately made, "no" if the disclosure has not been made, or "n/a" if the disclosure is not applicable to the engagement. The auditor should consider the effect of a "no" answer on his/her report. A "no" answer that is material to the financial statements may warrant a departure from an unqualified opinion. (See paragraphs 20–63 of SAS No. 58, *Reports on Audited Financial Statements*, as amended [AICPA, *Professional Standards*, vol. 1, AU sec. 508 par. .20–.63].) If a "no" answer is checked, the authors recommend that a note be made in the right margin to explain why the disclosure was not made (for example, if the disclosure was not made because it was not material to the financial statements, write "not material" in the right margin). The right margin may be used for other remarks or comments as appropriate, including cross-referencing to applicable workpapers where the support to a disclosure may be found. Use of the checklists requires the exercise of individual professional judgment and may likely require some modification based on the circumstances of individual engagements.

.04 The checklist is not a substitute for the authoritative pronouncements. Users of the checklists and illustrative financial statements are urged to refer directly to applicable authoritative pronouncements when appropriate. The checklists and illustrative financial statements do not include all disclosures and presentation items promulgated nor do they represent minimum requirements. Pronouncements deemed remote for defined benefit plans are not included in this document. The checklists and illustrative financial statements are "tools" and in no way represent official positions or pronouncements of the AICPA.

.05 If you have further questions, call the AICPA Technical Hotline at 1-877-242-7212.

FSP Section 7200

Financial Statements and Notes Checklist

.01 This checklist has been developed by the staff of the Accounting and Auditing Publications Team of the AICPA as a nonauthoritative practice aid.

.02 This checklist contains numerous references to authoritative accounting and auditing pronouncements. Abbreviations and acronyms used in such references include the following:

AAG =	AICPA Audit and Accounting Guide *Employee Benefit Plans* (with conforming changes as of March 1, 2008)
APB =	Accounting Principles Board Opinion
ARB =	Accounting Research Bulletin
AU =	Reference to section number in *AICPA Professional Standards* (vol. 1)
CFR =	Code of Federal Regulations
DOL =	Department of Labor
ERISA =	Employee Retirement Income Security Act of 1974
FIN =	FASB Interpretation
FSP =	FASB Staff Position
PBGC =	Pension Benefit Guaranty Corporation
SAS =	AICPA Statement on Auditing Standards
SFAS =	FASB Statement of Financial Accounting Standards
SOP =	AICPA Statement of Position

.03 Checklist Questionnaire:

This financial statement disclosure checklist is organized into the following sections listed. Carefully review the topics listed and consider whether they represent potential disclosure items for the plan. Place a check mark by the topics or sections that are applicable and complete those sections of the checklist. Other sections may be marked "N/A" or left blank. For example, if the plan had a change in accounting principle, place a check mark by the section "Changes in Accounting" and complete that section of the checklist. On the other hand, if the plan did not have a change in accounting principle, do not place a check mark by "Changes in Accounting" and skip that section when completing the checklist.

	Place ✓ by Applicable Sections
• General	
A. Titles and References	______
B. Comparative Financial Statements	______
C. Consolidated Financial Statements	______
• Statement of Net Assets Available for Benefits	
A. General	______
B. Investments	______

		Place ✓ by Applicable Sections
C.	Assets Held in 401(h) Account	______
D.	Operating Assets	______
E.	Contributions Receivable and Uncollectible Amounts	______
F.	Cash	______
G.	Liabilities	______

- Statement of Changes in Net Assets Available for Benefits

A.	General	______
B.	Contributions	______
C.	Investment Earnings	______
D.	401(h) Account Assets	______
E.	Transfer of Assets to or From Other Plans	______

- Statement of Accumulated Plan Benefits

A.	Actuarial Present Value of Accumulated Plan Benefits	______
B.	Accumulated Contributions of Present Employees	______

- Statement of Changes in Accumulated Plan Benefits

A.	Presentation of Changes in the Actuarial Present Value of Accumulated Plan Benefits	______
B.	Changes in Actuarial Assumptions	______
C.	Benefits Paid and Other	______

- Summary of Significant Accounting Policies

A.	Accounting Policies	______
B.	Certain Significant Estimates	______

- Other Financial Statement Disclosures

A.	Changes in Accounting	______
A1.	Accounting Changes and Error Corrections	______
B.	Commitments and Contingencies	______
C.	Current Vulnerability Due to Certain Concentrations	______
D.	Description of Pension Plan	______
E.	Description of Pension Plan Amendments	______
F.	Financial Instruments	______
F1.	Financial Instruments (with SFAS 161)	______
G.	Guarantees	______
H.	Income Tax Status	______
I.	Uncertainty in Income Tax (FIN 48)	______
J.	Plan Terminations	______
K.	Related-Party Transactions	______
L.	Subsequent Events	______
M.	Transfers and Servicing of Financial Assets and Securitizations	______
M1.	Transfers and Servicing of Financial Assets and Securitizations (SFAS 156)	______
N.	Fair Value Measurements	______
O.	Other Matters	______

- ERISA Reporting Requirements

A.	Form 5500 Series Report	______
B.	Financial Statement Disclosures Required Under the Alternative Method of Compliance for Pension Plans Pursuant to DOL Regulations Section CFR 2520.103 and Section 103 of ERISA	______

Place ✓ by Applicable Sections

C. Required Financial Statements and Supporting Schedules ______

- Auditors' Report Checklist ______
- Illustrative Financial Statements and Auditor's Reports ______

Yes *No* *N/A*

General

A. Titles and References

1. For a full presentation in conformity with generally accepted accounting principles (GAAP), are the following financial statements presented:
   a. A "Statement of Net Assets Available for Benefits" as of the end of the plan year? ____ ____ ____
   [ERISA requires that this statement be presented in comparative form]
   b. A "Statement of Changes in Net Assets Available for Benefits" for the year then ended? ____ ____ ____
   c. A "Statement of Accumulated Plan Benefits" as of either the beginning (amounts as of the end of the preceding year) or end of the plan year? ____ ____ ____
   [Use of an end-of-year information date is considered preferable.]
   d. A "Statement of Changes in Accumulated Plan Benefits?" ____ ____ ____
   [SFAS 35 par. 6 and 8; AAG 2.08]

Practice Tip

The information in questions *c–d* can be alternatively disclosed in the notes to the financial statements.

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2. Is the information regarding both the net assets available for benefits and the actuarial present value of accumulated plan benefits presented as of the same date? ____ ____ ____
   [SFAS 35 par. 7]
3. Is the information regarding both the changes in net assets available for benefits and the changes in the actuarial present value of accumulated plan benefits presented for the same period? ____ ____ ____
   [SFAS 35 par. 7]
4. If accumulated plan benefit information is presented as of the beginning of the year, have the prior year statements of net assets and changes therein also been included? ____ ____ ____
   [SFAS 35 par. 7; AAG 2.43]
5. Do the plan financial statements include information about the plan resources and how the stewardship responsibility for those resources has been discharged, and other factors necessary for users and participants to understand the information provided? ____ ____ ____
   [SFAS 35 par. 5]
6. Is each financial statement suitably titled? ____ ____ ____
   [Generally Accepted]

	Yes	No	N/A
7. Does each statement include a reference to the notes, which are an integral part of the financial statements? [Generally Accepted]	____	____	____

B. Comparative Financial Statements

1. Are comparative statements presented if appropriate?[1] [ARB 43 ch. 2A par. 1–2]	____	____	____
2. If comparative financial statements are presented, are the notes and other disclosures included in the financial statements of the preceding year(s) repeated, or at least referred to, to the extent that they continue to be of significance? [ARB 43 ch. 2A par. 2]	____	____	____
3. If changes occurred in the manner of or basis for presenting corresponding items for two or more periods, are appropriate explanations of the changes disclosed? [ARB 43 ch. 2A par. 3]	____	____	____

C. Consolidated Financial Statements

1. If consolidated statements are presented, is the consolidation policy disclosed? [ARB 51 par. 5; APB 22 par. 13]	____	____	____
2. Are the accounts of all majority-owned subsidiaries (except those for which control is likely to be temporary or does not rest with the majority owner) consolidated? [SFAS 94 par. 13]	____	____	____
3. If the financial reporting periods of any subsidiaries are different from that of the parent, are intervening events that materially affect financial position or results of operations disclosed? [ARB 51 par. 4]	____	____	____

Consolidation of Variable Interest Entities

4. Does the primary beneficiary of a variable interest entity disclose the following (unless the primary beneficiary also holds a majority voting interest):			
a. The nature, purpose, size, and activities of the variable interest entity?	____	____	____
b. The carrying amount and classification of consolidated assets that are collateral for the variable interest entity's obligations?	____	____	____
c. Lack of recourse if creditors (or beneficial interest holders) of a consolidated variable interest entity have no recourse to the general credit of the primary beneficiary? [FIN 46(R) par. 23]	____	____	____
5. Does an enterprise that holds a significant variable interest in a variable interest entity but is not the primary beneficiary disclose:			

[1] ERISA requires that the "Statement of Net Assets Available for Benefits" be presented in comparative form. In addition, if the accumulated benefit information is presented as of the beginning of the plan year, prior year statements of net assets and changes therein are required. (Exhibit D-7 in appendix D of the guide illustrates the appropriate financial statement presentation when beginning-of-year benefit information is selected.) [AAG 2.08 fn 2, and 2.43]

	Yes	No	N/A
a. The nature of its involvement with the variable interest entity and when that involvement began?	____	____	____
b. The nature, purpose, size, and activities of the variable interest entity?	____	____	____
c. The enterprise's maximum exposure to loss as a result of its involvement with the variable interest entity? [FIN 46(R) par. 24]	____	____	____

Note: For entities to which FIN 46(R), *Consolidation of Variable Interest Entities (revised December 2003)—an interpretation of ARB No. 51,* has been applied, the guidance in FSP FIN 46(R)-5, *Implicit Variable Interests under FASB Interpretation No. 46 (revised December 2003),* should be applied in the first reporting period beginning after March 3, 2005 in accordance with the transition provision of FIN 46(R). Restatement to the date of the initial application of FIN 46(R) is permitted but not required. Early application is permitted for periods for which financial statements have not yet been issued. For entities to which FIN 46(R) has not been applied, the guidance in FSP FIN 46(R)-5 should be applied in accordance with the effective date and transition provisions of FIN 46(R).

	Yes	No	N/A
6. Are disclosures required by SFAS 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities—a replacement of FASB Statement No. 125,* about a variable interest entity included in the same note to the financial statements as the information required by FIN 46(R)? [FIN 46(R) par. 25]	____	____	____
7. If an entity does not apply FIN 46(R) to one or more variable interest entities or potential variable interest entities because of the condition described in paragraph 4(g) of FIN 46(R), is the following information disclosed:			
a. The number of entities to which this interpretation is not being applied and the reason why the information required to apply this interpretation is not available?	____	____	____
b. The nature, purpose, size (if available), and activities of the entity(ies) and the nature of the enterprise's involvement with the entity(ies)?	____	____	____
c. The reporting enterprise's maximum exposure to loss because of its involvement with the entity(ies)?	____	____	____
d. The amount of income, expense, purchases, sales, or other measure of activity between the reporting enterprise and the entity(ies) for all periods presented? (However, if it is not practicable to present that information for prior periods that are presented in the first set of financial statements for which this requirement applies, the information for those prior periods is not required.) [FIN 46(R) par. 26]	____	____	____

	Yes	No	N/A

Statement of Net Assets Available for Benefits

A. General

1. Is the information in the "Statement of Net Assets Available for Benefits" presented in such reasonable detail as is necessary to identify the plan's resources that are available for benefits? [SFAS 35 par. 9] ____ ____ ____

B. Investments

1. Are the plan's investments presented in enough detail to identify the types of investments and whether reported fair values have been measured by quoted prices in an active market or otherwise determined? [SFAS 35 par. 13; AAG 2.31] ____ ____ ____
2. Are the following investments reported as separate line items in the "Statement of Net Assets Available for Benefits:"
   a. Government securities? ____ ____ ____
   b. Short-term securities? ____ ____ ____
   c. Corporate bonds? ____ ____ ____
   d. Common stocks? ____ ____ ____
   e. Mortgages? ____ ____ ____
   f. Real estate? ____ ____ ____
   g. Investments in bank common or collective trust funds? ____ ____ ____
   h. Registered investment companies (for example, mutual funds)? ____ ____ ____
   i. Master trusts? ____ ____ ____
   j. Investments in contracts with insurance companies, including separate accounts, deposit administration (DA), and immediate participation guarantee (IPG) contracts? [AAG 2.31] ____ ____ ____

Practice Tips

SFAS 110, *Reporting by Defined Benefit Pension Plans of Investment Contracts—an amendment of FASB Statement No. 35*, requires defined benefit pension plans to report investment contracts at fair value. Insurance contracts should continue to be reported at either fair value or at amounts determined by the insurance enterprise (contract value). SFAS 110 does not apply to deposit administration and immediate participation guarantee contracts entered into before March 20, 1992.

SFAS 133, *Accounting for Derivative Instruments and Hedging Activities*, as amended by SFAS 149, *Amendment of Statement 133 on Derivative Instruments and Hedging Activities*, says that a contract that is accounted for under either paragraph 4 of SFAS 110, or paragraph 12 of SFAS 35, *Accounting and Reporting by Defined Benefit Pension Plans*, as amended by SFAS 110, is not subject to SFAS 133.

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3. For contracts with insurance companies that are included in plan assets, are restrictions on the use of the assets disclosed? [AAG 7.50*c*] ____ ____ ____
4. Are investments that represent 5 percent or more of total net assets available for benefits separately identified in the financial statements or notes thereto? [SFAS 35 par. 28g; AAG 2.49*g*] ____ ____ ____

Yes No N/A

Practice Tip

Listing all investments in Schedule H, line 4i—Schedule of Assets (Held at End of Year) required by ERISA does not eliminate the requirement to include this disclosure in the financial statements.
[AAG 2.49*g*]

5. Do disclosures include investments of a master trust detailed by general type, such as government securities, short-term securities, corporate bonds, common stocks, mortgages, and real estate, as of the date of each "Statement of Net Assets Available for Benefits" presented? ____ ____ ____
[AAG 2.52]

6. Do disclosures include a description of the basis used to allocate net assets, net investment income, gains and losses to participating plans, and the plan's percentage interest in a master trust as of the date of each "Statement of Net Assets Available for Benefits?" ____ ____ ____
[AAG 2.52]

C. Assets Held in 401(h) Account

1. Are the 401(h) net assets shown as a single line item on the face of the statement of net assets available for plan benefits? ____ ____ ____
[SOP 99-2 par. 8 (ACC 10,780.08); AAG 2.59]

2. Do the notes to the financial statements disclose the nature of the assets related to the 401(h) account, and the fact that the assets are available only to pay retiree health benefits? ____ ____ ____
[SOP 99-2 par. 13 (ACC 10,780.13); AAG 2.61]

D. Operating Assets

1. For depreciable assets, do the financial statements include disclosure of:

   a. Depreciation expense for each period? ____ ____ ____

   b. Balances of major classes of depreciable assets by nature or function? ____ ____ ____

   c. Accumulated depreciation, either by major classes of assets or in total? ____ ____ ____

   d. The method or methods used in computing depreciation for each major class of depreciable assets? ____ ____ ____
   [APB 12 par. 5a–d]

2. If an impairment loss is recognized for assets to be held and used, or for assets to be disposed of, are disclosures made in accordance with SFAS 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, paragraphs 25–27, 33, and 42–48?[2] ____ ____ ____
[SFAS 144 par. 25–27, 33, and 42–48]

[2] SFAS 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, establishes accounting and reporting for the impairment or disposal of long-lived assets to be held and used and assets to be disposed of. The required disclosures of SFAS 144 have not been included in the checklist due to the determination that many of the disclosure requirements would not be applicable to defined benefit pension plans however if the plan recognizes an impairment of long-lived assets please refer to SFAS 144 paragraphs 25–27, 33, and 42–48 for the disclosure requirements.

	Yes	No	N/A
E. Contributions Receivable and Uncollectible Amounts			
1. Are the following contributions receivable separately identified:			
a. Receivables from employer(s)?	____	____	____
b. Receivables from participants?	____	____	____
c. Other sources of funding pursuant to formal commitments as well as legal or contractual requirements? [SFAS 35 par. 10; AAG 2.37]	____	____	____
2. Do contributions receivable include an allowance for uncollectible amounts? [SFAS 35 par. 91; AAG 2.37–.38]	____	____	____
F. Cash			
1. Is separate disclosure made of restricted cash? [ARB 43 ch. 3A par. 6]	____	____	____
2. Are restrictions on cash properly disclosed? [SFAS 5 par. 18]	____	____	____
G. Liabilities			
1. Are liabilities other than for benefits (such as securities purchased, income taxes payable by the plan, and other expenses, for example, third-party administrator fees) deducted in arriving at net assets available for plan benefits? [AAG 2.41]	____	____	____

Practice Tip

Benefit amounts should not be accrued as liabilities.
[AAG 2.41]

	Yes	No	N/A
2. Consider stating separately:			
a. Due to broker for securities purchased?	____	____	____
b. Accounts payable?	____	____	____
c. Accrued expenses? [AAG 2.41 and exhibits D-1, D-5, and D-9]	____	____	____
3. Net assets related to the 401(h) account must be deducted before arriving at the total of net assets available for pension benefits:			
a. In deducting those net assets, are the amounts relating to 401(h) features presented as a separate line item in the liabilities section of the statement of net assets available for pension benefits?	____	____	____
b. Does the financial statement caption clearly denote that the net assets held in the 401(h) account relate to obligations of the health and welfare plan or arrangement? [AAG 2.59; SOP 99-2 par. 8 (ACC 10,780.08)]	____	____	____

Yes No N/A

Statement of Changes in Net Assets Available for Benefits

A. General

1. Does the "Statement of Changes in Net Assets Available for Benefits" (or the notes to the financial statements) present the net appreciation (depreciation) in the fair value of each significant type of investment, segregated between investments whose fair values have been measured by quoted market prices in an active market and those whose fair values have been otherwise determined? ____ ____ ____
[SFAS 35 par. 15; AAG 2.31 and 2.42]

2. At a minimum, does the "Statement of Changes in Net Assets Available for Benefits" disclose:
   a. Investment income (exclusive of changes in fair value)? ____ ____ ____
   b. Contributions from employer(s), segregated between cash and noncash contributions? ____ ____ ____
   c. Contributions from participants, including those transmitted by the sponsor? ____ ____ ____
   d. Contributions from other sources (for example, state subsidies or federal grants)? ____ ____ ____
   e. Benefits paid to participants? ____ ____ ____
   f. Payments to insurance companies to purchase contracts that are excluded from plan assets? ____ ____ ____
   g. Administrative expenses?
   h. Other changes? (For example, transfers of assets to or from other plans, if significant.) ____ ____ ____
   [SFAS 35 par. 15; AAG 2.42]

Practice Tip

Dividend income related to contracts with insurance companies that are excluded from plan assets may be netted against question 2*f.*
[SFAS 35 par. 28e and 15g fn 9]

B. Contributions

1. Is the nature of noncash contributions described, either parenthetically or in a footnote? ____ ____ ____
[SFAS 35 par. 15c fn 9]

C. Investment Earnings

1. Does the net appreciation (depreciation) in the fair value of investments (see question A.1) include realized gains and losses on investments that were both bought and sold during the year?[3] ____ ____ ____
[SFAS 35 par. 15 fn 7]

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[3] Gains and losses from investments sold need not be segregated from unrealized gains and losses relating to investments held at year-end. [AAG 2.42*a*]

	Yes	No	N/A
2. Is the net change in the fair value of each significant type of investment of a master trust and total investment income of the master trust by type (for example, interest and dividends) disclosed for each period for which a "Statement of Changes in Net Assets Available for Benefits" is presented? [AAG 2.52]	____	____	____

D. 401(h) Account Assets

1. Does the statement of changes in net assets available for plan benefits:

	Yes	No	N/A
a. Show only the changes in net assets of the pension plan and not any of the components of the changes in the net assets in the 401(h) account?	____	____	____
b. Reflect only qualified transfers to the 401(h) account or any unused or unspent amounts (including allocated income), or both, in the 401(h) account at the end of the year that were qualified transfers of excess pension plan assets that should have been but were not transferred back to the defined benefit pension plan? [SOP 99-2 par. 8 (ACC 10,780.08); AAG 2.59]	____	____	____

E. Transfer of Assets to or From Other Plans

	Yes	No	N/A
1. If there are significant transfers of assets to or from other plans, are they disclosed? [AAG 2.42]	____	____	____

Statement of Accumulated Plan Benefits

Practice Tip

The benefit information may be presented in a separate statement, combined with other information in the financial statements, or presented in a note to the financial statements. Regardless of the presentation, the benefit information should all be located in one place.
[AAG 2.46]

A. Actuarial Present Value of Accumulated Plan Benefits

1. Is the total actuarial present value of accumulated plan benefits as of the benefit information date segmented into at least the following categories:

	Yes	No	N/A
a. Vested benefits of participants currently receiving payments?	____	____	____
b. Other vested benefits?	____	____	____
c. Nonvested benefits? [SFAS 35 par. 22; AAG 2.46]	____	____	____
2. Does the amount disclosed as vested benefits of participants currently receiving payments include those benefits due and payable as of the benefit information date? [SFAS 35 par. 22]	____	____	____

	Yes	No	N/A
3. Does information regarding accumulated plan benefits relate only to pension obligations and not to retiree health benefits, even in situations where separate financial statements are not prepared for the health and welfare benefit plan? [SOP 99-2 par. 9 (ACC 10,780.09); AAG 2.60]	____	____	____
B. Accumulated Contributions of Present Employees			
1. If the plan is contributory, is the amount of active employees' accumulated contributions as of the benefit information date (including interest, if any) disclosed? [SFAS 35 par. 22; AAG 2.46]	____	____	____
2. If interest has been credited on employees' contributions, is the rate(s) disclosed? [SFAS 35 par. 22; AAG 2.46]	____	____	____

Statement of Changes in Accumulated Plan Benefits

Practice Tip

The changes in accumulated plan benefits may be presented in a separate statement or presented in the notes to the financial statements in either reconciliation or narrative format.
[AAG 2.47]

	Yes	No	N/A
A. Presentation of Changes in the Actuarial Present Value of Accumulated Plan Benefits			
1. If significant, is information disclosed regarding the effects of certain factors affecting the change in the actuarial present value of accumulated plan benefits from the preceding to the current benefit information date? [SFAS 35 par. 25; AAG 2.47]	____	____	____
2. At a minimum, do disclosures include the significant effects of such factors as:			
a. Plan amendments?	____	____	____
b. Changes in the nature of the plan (for example, as a result of a spin-off or merger)?	____	____	____
c. Changes in actuarial assumptions?[4]	____	____	____
3. Are the significant effects of other factors identified, such as:			
a. Benefits accumulated?	____	____	____
b. The increase (for interest) as a result of the decrease in the discount period?	____	____	____
c. Benefits paid? [SFAS 35 par. 25]	____	____	____

[4] Changes in actuarial assumptions are to be viewed as changes in accounting estimates, and therefore previously reported amounts should not be restated. [AAG 2.47]

	Yes	No	N/A
4. If any one factor is individually significant, is that factor separately disclosed? [SFAS 35 par. 25]	____	____	____

Practice Tip

Actuarial experience gains or losses may be included with the effects of additional benefits accumulated rather than being separately disclosed.
[SFAS 35 par. 25 fn 12]

B. Changes in Actuarial Assumptions

	Yes	No	N/A
1. For plans that measure the actuarial present value of accumulated plan benefits by insurance company rates pursuant to the approach described in paragraph 21 of SFAS 35, are the effects of the changes in actuarial assumptions reflected in changes in those insurance rates disclosed, if practicable? [SFAS 35 par. 25 fn 11]	____	____	____
2. If the effects of changes in actuarial assumptions discussed in question 1 cannot be separately disclosed, are those effects included in benefits accumulated? [SFAS 35 par. 25 fn 12]	____	____	____

C. Benefits Paid and Other

	Yes	No	N/A
1. Are amounts paid by the plan to an insurance company pursuant to a contract that is excluded from plan assets (including the purchase of annuities with amounts allocated from existing investments with the insurance company) included in benefits paid? [SFAS 35 par. 25]	____	____	____
2. In presenting the changes in the actuarial present value of accumulated plan benefits, if only the minimum required disclosure is presented and a *statement format* is used, is an additional *other* category used to reconcile the beginning and ending amounts?[5] [SFAS 35 par. 25–26; AAG 2.47]	____	____	____

Summary of Significant Accounting Policies

A. Accounting Policies

	Yes	No	N/A
1. Is a description of all significant accounting policies of the pension plan presented as either a separate *summary of significant accounting policies* preceding the notes to the financial statements or as the initial note? [APB 22 par. 15]	____	____	____
2. Does the disclosure of significant accounting policies identify and describe all significant accounting principles followed by the reporting entity and the methods of applying those principles that materially affect the determination of financial position and results of operations, including instances in which there:			
a. Is a selection from existing acceptable alternatives?	____	____	____

[5] If the minimum required disclosure is presented in other than a statement format, the actuarial present value of accumulated plan benefits as of the preceding benefit information date should be presented. [SFAS 35 par. 25]

	Yes	No	N/A
b. Are principles and methods peculiar to the industry in which the reporting entity operates, even if such principles and methods are predominantly followed in that industry?	____	____	____
c. Are unusual or innovative applications of GAAP? [APB 22 par. 12]	____	____	____
3. Does the disclosure of significant accounting policies include appropriate reference to details presented elsewhere (in the statements and notes thereto) so duplication of details is avoided? [APB 22 par. 14]	____	____	____
4. Is an explanation that the preparation of financial statements in conformity with GAAP requires the use of management's estimates included? [SOP 94-6 par. 11 (ACC 10,640.11); FSP SOP 94-6-1 par. 10]	____	____	____
5. Does the disclosure of significant accounting policies include a description of the method(s) and significant assumptions used to determine the fair value of investments and the reported value of insurance contracts? [SFAS 35 par. 27a; AAG 2.48]	____	____	____
6. Does the disclosure of significant accounting policies include a description of the method and significant assumptions (for example, assumed rates of return, inflation rates, and retirement ages) used to determine the actuarial present value of accumulated plan benefits, including any significant changes in the method or assumptions during the year? [SFAS 35 par. 27b; AAG 2.48]	____	____	____
7. If administrative expenses expected to be paid by the plan (not those paid by the sponsor) that are associated with providing accumulated plan benefits are reflected by appropriately adjusting the assumed rates of return, is the adjustment of the assumed rates of return disclosed separately? [SFAS 35 par. 20c]	____	____	____
B. Certain Significant Estimates			
1. If known information available before the financial statements are issued indicates that *(a)* it is at least reasonably possible that the effect on the financial statements of a condition, situation, or set of circumstances that existed at the date of the financial statements will change in the near term due to one or more future confirming events, and *(b)* the effect of the change would be material to the financial statements:			
a. Is disclosure made of the nature of the uncertainty, including an indication that it is at least reasonably possible that a change in the estimate will occur in the near term?	____	____	____
b. If the estimate involves a loss contingency covered by SFAS 5, *Accounting for Contingencies*, does the disclosure include an estimate of the possible range of loss, or state that such an estimate cannot be made?	____	____	____
c. Does the disclosure describe the factors that cause the estimate to be sensitive to change? [SOP 94-6 par. 13–14 (ACC 10,640.13–.14); FSP SOP 94-6-1 par. 10–11; AAG 2.64]	____	____	____

	Yes	No	N/A

Other Financial Statement Disclosures

Note: APB 20, *Accounting Changes*, has been superseded by SFAS 154, *Accounting Changes and Error Corrections—a replacement of APB Opinion No. 20 and FASB Statement No. 3*. If SFAS 154 has been adopted, the following questions that are based on APB 20 do not apply and readers should refer to section A1.

A. Changes in Accounting

1. For changes in accounting principles, does disclosure in the period of change include:
   - *a.* Nature of the change? ____ ____ ____
   - *b.* Justification for the change, including a clear explanation of why the newly adopted accounting principle is preferable? ____ ____ ____
   - *c.* Effect on net additions (deductions) to the plan's net assets? ____ ____ ____
     [APB 20 par. 17 and 19]
2. For those changes in accounting principles requiring disclosure of cumulative effect and pro forma amounts, are such disclosures made? If it is not possible to determine such effect, is the reason for not reporting the cumulative effect of the change or the pro forma amounts of prior years disclosed? ____ ____ ____
   [APB 20 par. 19–22 and 25]
3. For changes in accounting principle that are required to be accounted for by restating prior period financial statements:
   - *a.* Are all financial statements of prior periods presented restated? ____ ____ ____
     [APB 20 par. 27]
   - *b.* Is the effect on net assets available for benefits for all prior periods presented shown? ____ ____ ____
     [APB 20 par. 28]
4. Is the correction of an error shown as a prior-period adjustment with disclosure of the following in the period of its discovery and correction? ____ ____ ____
   - *a.* Nature of the error in previously issued financial statements? ____ ____ ____
   - *b.* Effect of its correction on the changes (1) in the actuarial present value of accumulated plan benefits and (2) in the net assets available for benefits? ____ ____ ____
     [APB 20 par. 37]
5. For changes in accounting estimates:
   - *a.* If a change in an accounting estimate affects several future periods, is its effect on the change in net assets available for benefits of the current period disclosed? ____ ____ ____
     [APB 20 par. 33]

	Yes	No	N/A
b. If a change in an accounting estimate has no material effect in the period of change but is reasonably certain to materially affect later periods, is the change disclosed in the financial statements of the period of change? [APB 20 par. 38]	___	___	___
6. For a change in reporting entity, such as a merger of two or more plans, are transferred assets reported as a separate line item in the "Statement of Changes in Net Assets," and are the nature of the change and the reason for it disclosed? [APB 20 par. 34–35]	___	___	___

A1. Accounting Changes and Error Corrections

Note: If SFAS 154 has been adopted, the following section should be completed.

SFAS 154 was effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. SFAS 154 does not change the transition provisions of any existing accounting pronouncements, including those that are in a transition phase as of the effective date of the statement.

Change in Accounting Principle

1. Is the following disclosed in the fiscal period in which a change in accounting principle is made:

	Yes	No	N/A
a. The nature of and reason for the change in accounting principle, including an explanation of why the newly adopted accounting principle is preferable?	___	___	___
b. The method of applying the change, and:			
(1) A description of the prior-period information that has been retrospectively adjusted, if any?	___	___	___
(2) The effect of the change on income from continuing operations, net income (or other appropriate captions of changes in the applicable net assets or performance indicator), any other affected financial statement line item, and any affected per-share amounts for the current period and any prior periods retrospectively adjusted? Presentation of the effect on financial statement subtotals and totals other than income from continuing operations and net income (or other appropriate captions of changes in the applicable net assets or performance indicator) is not required.	___	___	___
(3) The cumulative effect of the change on retained earnings or other components of equity or net assets in the statement of financial position as of the beginning of the earliest period presented?	___	___	___
(4) If retrospective application to all prior periods (paragraph 7 of SFAS 154) is impracticable, disclosure of the reasons therefore, and a description of the alternative method used to report the change (paragraphs 8–9 of SFAS 154)?	___	___	___

	Yes	No	N/A
c. If indirect effects of a change in accounting principle are recognized:			
(1) A description of the indirect effects of a change in accounting principle, including the amounts that have been recognized in the current period, and the related per-share amounts, if applicable?	___	___	___
(2) Unless impracticable, the amount of the total recognized indirect effects of the accounting change and the related per-share amounts, if applicable, that are attributable to each prior period presented? [SFAS 154 par. 17]	___	___	___

Note: Financial statements of subsequent periods need not repeat the disclosures required by this paragraph.
[SFAS 154 par. 17]

	Yes	No	N/A
2. If a change in accounting principle has no material effect in the period of change but is reasonably certain to have a material effect in later periods, are the disclosures required by question 1*a* provided whenever the financial statements of the period of change are presented? [SFAS 154 par. 17]	___	___	___
3. In the fiscal year in which a new accounting principle is adopted, does financial information reported for interim periods after the date of adoption include disclosure of the effect of the change on income from continuing operations, net income (or other appropriate captions of changes in the applicable net assets or performance indicator), and related per-share amounts, if applicable, for those postchange interim periods? [SFAS 154 par. 18]	___	___	___

Change in Accounting Estimate

	Yes	No	N/A
4. Is the effect on income from continuing operations, net income (or other appropriate captions of changes in the applicable net assets or performance indicator), and any related per-share amounts of the current period disclosed for a change in estimate that affects several future periods, such as a change in service lives of depreciable assets? Disclosure of those effects is not necessary for estimates made each period in the ordinary course of accounting for items such as uncollectible accounts or inventory obsolescence; however, if the effect of a change in the estimate is material, is it disclosed?	___	___	___
5. When an entity effects a change in estimate by changing an accounting principle, are the disclosures required by questions 1–3 made?	___	___	___
6. If a change in estimate does not have a material effect in the period of change but is reasonably certain to have a material effect in later periods, is a description of that change in estimate disclosed whenever the financial statements of the period of change are presented? [SFAS 154 par. 22]	___	___	___

	Yes	No	N/A

Change in the Reporting Entity

7. When there has been a change in the reporting entity, do the financial statements of the period of the change describe the nature of the change and the reason for it? ___ ___ ___
   a. Is the effect of the change on income before extraordinary items, net income (or other appropriate captions of changes in the applicable net assets or performance indicator), other comprehensive income, and any related per-share amounts disclosed for all periods presented? ___ ___ ___
   [SFAS 154 par. 24]

Note: Financial statements of subsequent periods need not repeat the disclosures required by this paragraph.
[SFAS 154 par. 24]

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8. If a change in reporting entity does not have a material effect in the period of change but is reasonably certain to have a material effect in later periods, is the nature of and reason for the change disclosed whenever the financial statements of the period of change are presented? ___ ___ ___
   [SFAS 154 par. 24]

Note: Paragraphs 51–58 of SFAS 141, *Business Combinations*, describe the manner of reporting and the disclosures required for a business combination.
[SFAS 154 par. 24]

Correction of an Error in Previously Issued Financial Statements

9. When financial statements are restated to correct an error, does the plan disclose that its previously issued financial statements have been restated, along with a description of the nature of the error? Does the plan also disclose the following: ___ ___ ___
   a. The effect of the correction on each financial statement line item and any per-share amounts affected for each prior period presented? ___ ___ ___
   b. The cumulative effect of the change on retained earnings or other appropriate components of equity or net assets in the statement of financial position, as of the beginning of the earliest period presented? ___ ___ ___
10. In addition to question 9, does the plan make the disclosures of prior-period adjustments and restatements required by paragraph 26 of APB 9, *Reporting the Results of Operations?* ___ ___ ___
    [SFAS 154 par. 26]
11. In addition, does the plan make the disclosures of prior-period adjustments and restatements required by paragraph 26 of APB 9?
    a. The effects, in total and by class, of the correction on change in net assets for each of the periods presented? ___ ___ ___

	Yes	No	N/A
b. For single period financial statements, the effects, in total and by class, of the correction on change in net assets of the preceding year? [SFAS 154 par. 26; APB 9 par. 26]	____	____	____

Note: Financial statements of subsequent periods need not repeat the disclosures required by this paragraph. An entity that issues interim financial statements shall provide the required disclosures in the financial statements of both the interim period of the change and the annual period of the change. [SFAS 154 par. 26]

B. Commitments and Contingencies ***(See also section G, "Guarantees")***

	Yes	No	N/A
1. Is disclosure made of the nature of estimated loss contingencies accrued when *(a)* information available prior to issuance of the financial statements indicates that it is probable that an asset has been impaired or a liability incurred at the date of the financial statements and *(b)* the amount of loss can be reasonably estimated? [SFAS 5 par. 9]	____	____	____
2. If necessary to keep the financial statements from being misleading, are the amounts of contingencies accrued as described in question 1 disclosed? [SFAS 5 par. 9]	____	____	____
3. For loss contingencies not accrued because one or both of the conditions in question 1 are not met or if an exposure to loss exists in excess of the amount accrued for a loss contingency, do disclosures indicate:			
a. Nature of the contingency?	____	____	____
b. Estimate of possible loss or range of loss, or a statement that such estimate cannot be made? [SFAS 5 par. 10]	____	____	____
4. Are gain contingencies adequately disclosed with care to avoid any misleading implications about likelihood of realization? [SFAS 5 par. 17]	____	____	____
5. Are the nature and amount of any guarantees (for example, guarantees of indebtedness of others) disclosed even though the possibility of loss may be remote? [SFAS 5 par. 12]	____	____	____
6. Is there adequate disclosure of commitments, such as those for capital expenditures, restrictive covenants in financing agreements, and employment contracts? [SFAS 5 par. 18–19]	____	____	____

Yes No N/A

C. Current Vulnerability Due to Certain Concentrations

Notes: The guidance in FSP SOP 94-6-1, *Terms of Loan Products That May Give Rise to a Concentration of Credit Risk*, is effective for interim and annual periods ending after December 19, 2005. An entity shall provide the disclosures required by SFAS 107, *Disclosures about Fair Value of Financial Instruments*, for products that are determined to represent a concentration of credit risk in accordance with the guidance in question 1 of the FSP for all periods presented.
[FSP SOP 94-6-1 par. 17]

Question 2 of the FSP references only existing effective literature; therefore, no effective date or transition guidance is required.
[FSP SOP 94-6-1 par. 18]

The type and extent of information provided shall be determined by whether the entity is the originator, holder, investor, guarantor, or servicer and also by the significance of the loan product(s) to the reporting entity.
[FSP SOP 94-6-1 par. 9 (question 2)]

1. Is disclosure including information that is adequate to inform users of the general nature of the risk associated with concentrations in the volume of business transacted with a particular customer, supplier, lender, grantor, or contributor; in revenue from particular products, services, or fund-raising events; in the available sources of supply of materials, labor, or services, or licenses or other rights used in the reporting entity's operations; or in the market or geographic area in which the reporting entity conducts its operations made if, based on information known to management before the financial statements are issued, *(a)* the concentration existed at the date of the financial statements, *(b)* made the plan vulnerable to the risk of a near-term severe impact, and *(c)* it is at least reasonably possible that the events that could cause the severe impact will occur in the near term? ____ ____ ____
[SOP 94-6 par. 21–22 (ACC 10,640.21–.22); FSP SOP 94-6-1 par. 10–11; AAG 2.65]
2. For those concentrations of labor subject to collective bargaining agreements and concentrations of operations located outside the reporting entity's home country that (*a*) exist at the date of the financial statements and (*b*) make the reporting entity vulnerable to the risk of a near-term severe impact, where it is at least reasonably possible that the events that could cause the severe impact will occur in the near term, are the following disclosed:
   a. The percentage of labor force covered by a collective agreement and the percentage of the labor force covered by a collective bargaining agreement that will expire in one year? ____ ____ ____
   b. For operations located outside the reporting entity's home country, the carrying amounts of net assets and the geographic areas in which they are located? ____ ____ ____
   [SOP 94-6 par. 24 (ACC 10,640.24); FSP SOP 94-6-1 par. 10–11]
3. Are major categories of loans, including unusual risk concentrations disclosed, such as:

	Yes	No	N/A
a. Commercial, financial, and agricultural?	____	____	____
b. Real estate construction?	____	____	____
c. Real estate mortgage?	____	____	____
d. Installment loans to individuals?	____	____	____
e. Lease financing?	____	____	____
f. Foreign?	____	____	____
g. Loans in process?	____	____	____
h. Other? [FSP SOP 94-6-1 par. 11]	____	____	____
4. Are major concentrations of loan products whose contractual features may increase credit risk disclosed, such as:			
a. Negative amortization?	____	____	____
b. Loans with a high loan-to-value ratio?	____	____	____
c. Multiple loans on the same collateral that when combined, result in a high loan-to-value ratio?	____	____	____
d. Option ARMS or similar products that may expose the borrower to future increases in repayments?	____	____	____
e. An initial interest rate that is below the market interest rate for the initial period of a loan term and that may increase significantly when that period ends?	____	____	____
f. Interest only loans? [FSP SOP 94-6-1 par. 2 and 7; SFAS 107 par. 15A]	____	____	____
5. Are foreign loans, foreign nonaccrual loans, and foreign operations, if any of these foreign activities exceed a material percentage of activities, disclosed? [FSP SOP 94-6-1 par. 7; SFAS 107 par. 15A]	____	____	____
D. Description of Pension Plan			
1. Do disclosures include a brief, general description of the plan agreement, including its vesting and benefit provisions? [SFAS 35 par. 28a; AAG 2.49*a*; SOP 94-6 par. 10 (ACC 10,640.10); FSP SOP 94-6-1 par. 10]	____	____	____
2. For ERISA plans, does the plan description include the priority order of participants' claims to the assets of the plan upon plan termination and the benefits guaranteed by the PBGC? [SFAS 35 par. 28c; AAG 2.49*c*]	____	____	____

Practice Tip

If material providing this information is otherwise published and made available to participants (for example, employee handbook), the disclosures required by SFAS 35 paragraph 28a and c can be omitted provided that (1) a reference to the other source is made and (2) for paragraph 28c only, disclosure similar to that stated in SFAS 35 is made. Refer to SFAS 35 paragraph 28c fn 16 for appropriate wording.

	Yes	No	N/A

E. Description of Pension Plan Amendments

1. Do disclosures include a description of significant plan amendments adopted during the year? [SFAS 35 par. 28b; AAG 2.49*b*] ____ ____ ____
2. If significant plan amendments were adopted after the date of the accumulated benefit information, and accordingly their effect was not included in the calculation, is this fact stated? [SFAS 35 par. 28b; AAG 2.49*b*] ____ ____ ____

Practice Tip

If material providing this information is otherwise published and made available to participants (for example, employee handbook), the disclosure required by SFAS 35 paragraph 28c can be omitted provided that (1) a reference to the other source is made and (2) disclosure similar to that stated in SFAS 35 is made. Refer to SFAS 35 par. 28c fn 16 for appropriate wording.

F. Financial Instruments

Notes: Plans that have not adopted SFAS 161, *Disclosures about Derivative Instruments and Hedging Activities—an amendment of FASB Statement No. 133*, should complete this section (section F). Plans that have adopted SFAS 161 should complete section F1, "Financial Instruments (with SFAS 161)."

SFAS 161 amends SFAS 133 by requiring enhanced disclosures about an entity's derivative and hedging activities in order to improve the transparency of financial reporting. SFAS 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, with early application encouraged. SFAS 161 also encourages comparative disclosures at initial adoption.

SFAS 133, as amended by SFAS 149, says that a contract that is accounted for under either paragraph 4 of SFAS 110 or paragraph 12 of SFAS 35, as amended, is not subject to SFAS 133. This exception applies only to the party that accounts for the contract under SFAS 35 or SFAS 110.

Derivative Instruments and Hedging Activities

1. If a plan holds or issues derivative instruments (or nonderivative instruments that are designated and qualify as hedging instruments pursuant to paragraphs 37 and 42 of SFAS 133, as amended) has disclosure been made of its objectives for holding or issuing those instruments, the context needed to understand those objectives, and its strategies for achieving those objectives? ____ ____ ____
2. Does the description distinguish between derivative instruments (and nonderivative instruments) designated as fair value hedging instruments, derivative instruments (and nonderivative instruments) designated as hedging instruments for hedges of the foreign currency exposure of a net investment in a foreign operation, and all other derivatives? ____ ____ ____
3. Does the description also indicate the plan's risk management policy for each of those types of hedges, including a description of the items or transactions for which risks are hedged? ____ ____ ____

	Yes	*No*	*N/A*
4. For derivative instruments not designated as hedging instruments, does the description indicate the purpose of the derivative activity?	____	____	____
5. Qualitative disclosures about a plan's objectives and strategies for using derivative instruments may be more meaningful if such objectives and strategies are described in the context of a plan's overall risk management profile. If appropriate, a plan is ***encouraged, but not required,*** to provide such additional qualitative disclosures. Have such disclosures been made? [SFAS 133 par. 44]	____	____	____
6. For every reporting period for which a complete set of financial statements is presented, has the plan disclosed the following:			
Fair Value Hedges			
a. For derivative instruments, as well as nonderivative instruments that may give rise to foreign currency transaction gains or losses under SFAS 52, *Foreign Currency Translation,* that have been designated and have qualified as fair value hedging instruments and for the related hedged items:			
(1) The net gain or loss recognized in the investment income during the reporting period representing *(a)* the amount of the hedges' ineffectiveness and *(b)* the component of the derivative instruments' gain or loss, if any, excluded from the assessment of hedge effectiveness, and a description of where the net gain or loss is reported in the statement of changes in net assets available for benefits?	____	____	____
(2) The amount of net gain or loss recognized in investment income when a hedged firm commitment no longer qualifies as a fair value hedge? [SFAS 133 par. 45a]	____	____	____
Hedges of the Net Investment in a Foreign Operation			
b. For derivative instruments, as well as nonderivative instruments that may give rise to foreign currency transaction gains and losses under SFAS 52, that have been designated and have qualified as hedging instruments for hedges of the foreign currency exposure of a net investment in a foreign operation, the net amount of gains or losses included in the cumulative translation adjustment during the reporting period? [SFAS 133 par. 45c]	____	____	____
7. The quantitative disclosures about derivative instruments may be more useful, and less likely to be perceived to be out of context or otherwise misunderstood, if similar information is disclosed about other financial instruments or nonfinancial assets and liabilities to which the derivative instruments are related by activity. Accordingly, in such situations, has the plan presented a more complete picture of its activities by disclosing that information? (***Encouraged but not required.***) [SFAS 133 par. 45]	____	____	____

	Yes	No	N/A

Disclosures About Fair Value of Financial Instruments

8. Have the disclosure requirements of paragraphs 10–14 of SFAS 107, as amended by SFAS 157, *Fair Value Measurements*, been followed for financial instruments of the plan? ____ ____ ____
[SFAS 107, as amended by SFAS 157 par. 10–14; AAG 2.53–.54]

Disclosure About Concentrations of Credit Risk of All Financial Instruments

9. Except as indicated in paragraph 15B[6] of SFAS 107, has the plan disclosed all significant concentrations of credit risk arising from *all* financial instruments, whether from an individual counterparty or groups of counterparties (*Group concentrations* of credit risk exist if a number of counterparties are engaged in similar economic characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions)? ____ ____ ____
[SFAS 107 par. 15A, as amended by SFAS 161; SFAS 133 par. 531d]

10. Has the plan made the following disclosures about each significant concentration:
    a. Information about the (shared) activity, region, or economic characteristic that identifies the concentration? ____ ____ ____
    b. The maximum amount of loss due to credit risk that, based on the gross fair value of the financial instrument, the plan would incur if parties to the financial instruments that make up the concentration failed completely to perform according to the terms of the contracts and the collateral or other security, if any, for the amount due proved to be of no value to the plan? ____ ____ ____
    c. The plan's policy of requiring collateral or other security to support financial instruments subject to credit risk, information about the plan's access to that collateral or other security, and the nature and a brief description of the collateral or other security supporting those financial instruments? ____ ____ ____
    d. The plan's policy of entering into master netting arrangements to mitigate the credit risk of financial instruments, information about the arrangements to which the plan is a party, and a brief description of the terms of those arrangements, including the extent to which they would reduce the plan's maximum amount of loss due to credit risk? ____ ____ ____
    [SFAS 107 par. 15A, as amended by SFAS 161[7]; SFAS 133 par. 531d; AAG 2.54]

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[6] SFAS 107, *Disclosures about Fair Value of Financial Instruments*, paragraph 15B, provides that these disclosure requirements do not apply to the following financial instruments, whether written or held:

1. Financial instruments of a pension plan, including plan assets, when subject to the accounting and reporting requirements of SFAS 87, *Employers' Accounting for Pensions*, as amended (financial instruments of a pension plan, other than the obligations for pension benefits, when subject to the accounting and reporting requirements of SFAS 35, *Accounting and Reporting by Defined Benefit Pension Plans*, are subject to the reporting of paragraph 15A).
2. The financial instruments described in paragraphs 8(a), 8(c), and 8(f) of SFAS 107, as amended by SFAS 112, *Employers' Accounting for Postemployment Benefits—an amendment of FASB Statements No. 5 and 43*, SFAS 123, *Accounting for Stock-Based Compensation*, and SFAS 125, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*, except for reinsurance receivables and prepaid reinsurance premiums.

[7] The term *financial instruments* includes derivative instruments accounted for under SFAS 133, *Accounting for Derivative Instruments and Hedging Activities*.

	Yes	*No*	*N/A*
11. Has the plan disclosed quantitative information[8] about the market risks of financial instruments that is consistent with he way it manages or adjusts those risks? (***Encouraged but not required.***) [SFAS 107 par. 15C, as amended; SFAS 133 par. 531d]	____	____	____

F1. Financial Instruments (with SFAS 161)

Notes: Plans that have adopted SFAS 161 should complete this section (section F1). Plans that have not adopted SFAS 161 should complete section F, "Financial Instruments."

SFAS 161 amends SFAS 133 by requiring enhanced disclosures about an entity's derivative and hedging activities in order to improve the transparency of financial reporting. SFAS 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, with early application encouraged. SFAS 161 also encourages comparative disclosures at initial adoption.

	Yes	*No*	*N/A*
1. Does the plan disclose the following information about derivative instruments it holds or issues (or nonderivative instruments it holds or issues that are designated and qualify as hedging instruments pursuant to paragraphs 37 and 42 of SFAS 133, as amended)			
a. Its objectives for holding or issuing those instruments?	____	____	____
b. The context needed to understand those objectives?	____	____	____
c. Its strategies for achieving those objectives?	____	____	____
2. Is the information about the instruments disclosed in the context of each instrument's primary underlying risk exposure (for example, interest rate, credit, foreign exchange rate, interest rate and foreign exchange rate, or overall price?	____	____	____
3. Does the description of those instruments also distinguished between those used for risk management purposes and those used for other purposes?[9]	____	____	____
4. For derivative instruments designated as hedging instruments, does the description distinguish between derivatives designated as fair value hedging instruments, derivative instruments designated as cash flow hedging instruments, and derivative instruments designated as hedging instruments of the foreign currency exposure in a net investment in a foreign operation?	____	____	____
5. For derivative instruments not designated as hedging instruments, does the description indicate the purpose of the derivative activity?	____	____	____
6. Does the plan disclose information that enables users of its financial statements to understand the volume of its derivative activity?	____	____	____

[8] Appropriate ways of reporting the quantitative information encouraged will differ for different plans and will likely evolve over time as management approaches and measurement techniques evolve. Possibilities include disclosing *(a)* more details about current positions and perhaps activity during the period, *(b)* the hypothetical effects on comprehensive income (or net assets), or annual income, of several possible changes in market prices, *(c)* a gap analysis of interest rate repricing or maturity dates, *(d)* the duration of the financial instruments, or *(e)* the plan's value at risk from derivatives and from other positions at the end of the reporting period and the average value at risk during the year. This list is not exhaustive, and a plan is encouraged to develop other ways of reporting quantitative information.

[9] ***Note***: Derivative instruments used for risk management purposes include those designated as hedging instruments as well as those used as economic hedges and for other purposes related to the plan's risk exposure.

Yes No N/A

7. Did the plan consider providing additional qualitative disclosures about its overall risk exposures relating to interest rate risk, foreign currency exchange rate risk, commodity price risk, credit risk, and equity price risk? Those additional qualitative disclosures, if made, should include a discussion of those exposures even though the plan does not manage some of those exposures by using derivative instruments. [SFAS 133 par. 44, as amended by SFAS 161 par. 3] ____ ____ ____

8. For every annual and interim reporting period for which a statement of net assets available for benefits and a statement of changes in net assets available for benefits is presented, does the plan disclose the location and fair value amounts of derivative instruments it holds or issues (or nonderivative instruments it holds or issues that are designated and qualify as hedging instruments pursuant to paragraphs 37 and 42 of SFAS 133) in a tabular format that provides

   a. the fair value on a gross basis, even when the derivative instruments are subject to master netting arrangements and qualify for net presentation in accordance with FIN 39, *Offsetting of Amounts Related to Certain Contracts* (cash collateral payables and receivables associated with the derivative instruments are not added to or netted against the fair value amounts)? ____ ____ ____

   b. fair value amounts presented as separate asset and liability values segregated between derivatives that are designated and qualifying as hedging instruments and those that are not? ____ ____ ____

   c. within each of the aforementioned categories, are fair value amounts presented separately by type of derivative contract (such as interest rate contracts, foreign exchange contracts, equity contracts, commodity contracts, credit contracts, or other contracts)? ____ ____ ____

   d. does the disclosure identify the line item(s) in the statement of net assets available for benefits in which the fair value amounts for these categories of derivative instruments are included? ____ ____ ____

9. Does the plan disclose the location and amount of the gains and losses reported in the statement of changes in net assets available for benefits for derivative instruments it holds or issues (or nonderivative instruments it holds or issues that are designated and qualify as hedging instruments pursuant to paragraphs 37 and 42 of SFAS 133) in tabular format? Are the gains and losses presented separately for

   a. derivative instruments designated and qualifying as hedging instruments in fair value hedges and related hedged items designated and qualifying in fair value hedges? (***Note***: The information about hedged items in this step can be presented in tabular or nontabular format.) ____ ____ ____

   b. the effective portion of gains and losses on derivative instruments designated and qualifying in cash flow hedges and net investment hedges that was recognized in investment income during the current period? ____ ____ ____

   c. the effective portion of gains and losses on derivative instruments designated and qualifying in cash flow hedges and net investment hedges recorded in investment income during the term of the hedging relationship? ____ ____ ____

	Yes	No	N/A
d. the portion of gain and losses on derivative instruments designated and qualifying in cash flow hedges and net investment hedges representing (1) the amount of the hedges' ineffectiveness and (2) the amount, if any, excluded from the assessment of hedge effectiveness?	____	____	____
e. derivative instruments not designated or qualifying as hedging instruments?	____	____	____
10. Do the disclosures in the preceding question 9 present information separately by type of derivative contract (for example, interest rate contracts, foreign exchange contracts, equity contracts, commodity contracts, and credit contracts), and do they identify the line items in the statement of changes in net assets available for benefits in which the gains and losses for these categories of derivative instruments are included?	____	____	____
11. If the plan excludes derivative instruments not designated or qualifying as hedging instruments from the disclosures in question 9, has it disclosed the following for those excluded instruments:			
a. The gains and losses on its trading activities (including both derivative and nonderivative instruments) recognized in the statement of changes in net assets available for benefits, separately by major types of items (for example, fixed income or interest rates, foreign exchange, equity, commodity, and credit)?	____	____	____
b. The line items in the statement of changes in net assets available for benefits in which trading activities gains and losses are included?	____	____	____
c. A description of the nature of its trading activities and related risks and how the plan manages those risks?	____	____	____
12. Does the plan disclose the following information about derivative instruments it holds and issues (or nonderivative instruments it holds and issues that are designated and qualify as hedging instruments pursuant to paragraphs 37 and 42 of SFAS 133) for every annual and interim reporting period for which a statement of net assets available for benefits and a statement of changes in net assets available for benefits is presented?			
a. The existence and nature of credit-risk-related contingent features and the circumstances in which the features could be triggered in derivative instruments that are in a net liability position at the financial statement date?	____	____	____
b. The aggregate fair value amounts of derivative instruments that contain credit-risk related contingent features that are in a net liability position at the end of the reporting period?	____	____	____
c. The aggregate fair value of assets that are already posted as collateral at the financial statement date and (1) the aggregate fair value of additional assets that would be required to be posted as collateral or (2) the aggregate fair value of assets needed to settle the instrument immediately, if the credit-risk-related contingent features were triggered at the financial statement date?	____	____	____

Yes No N/A

13. If the information on derivative instruments (or nonderivative instruments that are designated and qualify as hedging instruments pursuant to paragraphs 37 and 42 of SFAS 133) is disclosed in more that a single footnote, has the plan cross-referenced from the derivative footnote to other footnotes in which derivative-related information is disclosed? ____ ____ ____
[SFAS 133 par. 44c–e, as amended by SFAS 161]

Fair Value Hedges

14. For derivative instruments, as well as nonderivative instruments that may give rise to foreign currency transaction gains or losses under SFAS 52 that have been designated and have qualified as fair value hedging instruments and for the related hedged items, has the following been disclosed:
   a. The net gain or loss recognized in the investment income during the reporting period representing (1) the amount of the hedges' ineffectiveness and (2) the component of the derivative instruments' gain or loss, if any, excluded from the assessment of hedge effectiveness? ____ ____ ____
   b. The amount of net gain or loss recognized in investment income when a hedged firm commitment no longer qualifies as a fair value hedge? ____ ____ ____
   [SFAS 133 par. 45a, as amended by SFAS 161]

15. The quantitative disclosures about derivative instruments may be more useful and less likely to be perceived to be out of context or otherwise misunderstood, if similar information is disclosed about other financial instruments or nonfinancial assets and liabilities to which the derivative instruments are related by activity. Accordingly, in such situations, has the plan presented a more complete picture of its activities by disclosing that information? ***(Encouraged but not required.)*** ____ ____ ____
[SFAS 133 par. 45, as amended by SFAS 161]

Disclosures About Fair Value of Financial Instruments

16. Have the disclosure requirements of paragraphs 10–14 of SFAS 107, as amended by SFAS 157, been followed for financial instruments of the plan? ____ ____ ____
[SFAS 107, as amended by SFAS 157 par. 10–14; AAG 2.53–.54]

Disclosure About Concentrations of Credit Risk of All Financial Instruments

17. Except as indicated in paragraph 15b[10] of SFAS 107, has the plan disclosed all significant concentrations of credit risk arising from *all* financial instruments, whether from an individual counterparty or groups of counter-parties (*group concentrations* of credit risk exist if a number of counterparties are engaged in similar economic characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions)? ____ ____ ____
[SFAS 107 par. 15a, as amended by SFAS 161; SFAS 133 par. 531d]

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[10] SFAS 107 paragraph 15b provides that these disclosure requirements do not apply to the following financial instruments, whether written or held:

1. Financial instruments of a pension plan, including plan assets, when subject to the accounting and reporting requirements of

	Yes	No	N/A
18. Has the plan made the following disclosures about each significant concentration:			
a. Information about the (shared) activity, region, or economic characteristic that identifies the concentration?	____	____	____
b. The maximum amount of loss due to credit risk that, based on the gross fair value of the financial instrument, the plan would incur if parties to the financial instruments that make up the concentration failed completely to perform according to the terms of the contracts and the collateral or other security, if any, for the amount due proved to be of no value to the plan?	____	____	____
c. The plan's policy of requiring collateral or other security to support financial instruments subject to credit risk, information about the plan's access to that collateral or other security, and the nature and a brief description of the collateral or other security supporting those financial instruments?	____	____	____
d. The plan's policy of entering into master netting arrangements to mitigate the credit risk of financial instruments, information about the arrangements to which the plan is a party, and a brief description of the terms of those arrangements, including the extent to which they would reduce the plan's maximum amount of loss due to credit risk? [SFAS 107 par. 15a, as amended by SFAF 161[11]; SFAS 133 par. 531d]	____	____	____
19. Has the plan disclosed quantitative information[12] about the market risks of financial instruments that is consistent with the way it manages or adjusts those risks? ***(Encouraged but not required.)*** [SFAS 107 par. 15c, as amended; SFAS 133 par. 531d]	____	____	____
G. Guarantees			
1. Is the following information disclosed by a guarantor about each guarantee, or each group of similar guarantees, even if the likelihood of the guarantor's having to make any payments under the guarantee is remote:			
a. The nature of the guarantee, including the approximate term, how the guarantee arose, and the events or circumstances that would require the guarantor to perform under the guarantee?	____	____	____
b. The maximum potential amount of future payments (undiscounted) the guarantor could be required to make under the guarantee?	____	____	____

SFAS 87, as amended (financial instruments of a pension plan, other than the obligations for pension benefits, when subject to the accounting and reporting requirements of SFAS 35 are subject to the reporting of paragraph 15a).

2. The financial instruments described in paragraphs 8a, 8c, and 8f of SFAS 107, as amended by SFAS 112, SFAS 123, and SFAS 125, except for reinsurance receivables and prepaid reinsurance premiums.

[11] The term *financial instruments* includes derivative instruments accounted for under SFAS 133.

[12] Appropriate ways of reporting the quantitative information encouraged will differ for different plans and will likely evolve over time as management approaches and measurement techniques evolve. Possibilities include disclosing (*a*) more details about current positions and perhaps activity during the period, (*b*) the hypothetical effects on comprehensive income (or net assets), or annual income, of several possible changes in market prices, (*c*) a gap analysis of interest rate repricing or maturity dates, (*d*) the duration of the financial instruments, or (*e*) the plan's value at risk from derivatives and from other positions at the end of the reporting period and the average value at risk during the year. This list is not exhaustive, and a plan is encouraged to develop other ways of reporting quantitative information.

	Yes	No	N/A
c. If the terms of the guarantee provide for no limitation to the maximum potential future payments under the guarantee, is that fact disclosed?	____	____	____
d. If the guarantor is unable to develop an estimate of the maximum potential amount of future payments under its guarantee, is the reasons why the maximum potential amount cannot be estimated disclosed?	____	____	____
e. The current carrying amount of the liability, if any, for the guarantor's obligations under the guarantee, including the amount, if any, recognized under SFAS 5 paragraph 8, regardless of whether the guarantee is freestanding or embedded in another contract?	____	____	____
f. The nature of—			
(1) Any recourse provisions that would enable the guarantor to recover from third parties any of the amounts paid under the guarantee? and	____	____	____
(2) Any assets held either as collateral or by third parties that, upon the occurrence of any triggering event or condition under the guarantee, the guarantor can obtain and liquidate to recover all or a portion of the amounts paid under the guarantee?	____	____	____
g. If estimable, the approximate extent to which the proceeds from liquidation of those assets would be expected to cover the maximum potential amount of future payments under the guarantee? [FIN 45 par. 13]	____	____	____
2. For product warranties and other guarantee contracts that are excluded from the initial recognition and initial measurement requirements of FIN 45 pursuant to paragraph 7(b) of FIN 45, *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others—an interpretation of FASB Statements No. 5, 57, and 107 and rescission of FASB Interpretation No. 34* (collectively referred to as product warranties), is the following information disclosed:			
a. The guarantor's accounting policy and methodology used in determining its liability for product warranties (including any liability associated with extended warranties)?	____	____	____
b. A tabular reconciliation of the changes in the guarantor's aggregate product warranty liability for the reporting period?	____	____	____
c. Does the tabular reconciliation present			
(1) The beginning balance of the aggregate product warranty liability?	____	____	____
(2) The aggregate reductions in that liability for payments made (in cash or in kind) under the warranty?	____	____	____
(3) The aggregate changes in the liability for accruals related to product warranties issued during the reporting period, and the aggregate changes in the liability for accruals related to preexisting warranties, including adjustments related to changes in estimates?	____	____	____
(4) The ending balance of the aggregate product warranty liability? [FIN 45 par. 14]	____	____	____

	Yes	*No*	*N/A*
3. Are the disclosure requirements in paragraphs 13–14 of FIN 45 complied with for the intellectual property infringement indemnifications as described in FSP FIN 45-1, *Accounting for Intellectual Property Infringement Indemnifications under FASB Interpretation No. 45*? [FSP 45-1]	____	____	____

H. Income Tax Status

1. If a favorable letter of determination has not been obtained or maintained, is the federal income tax status of the plan disclosed? [SFAS 35 par. 28f; AAG 2.49*f*]	____	____	____

Practice Tip

Note that reports filed in accordance with the requirements of ERISA must include disclosure of "information concerning whether or not a tax ruling or determination letter has been obtained," which is more than is required by SFAS 35, as amended.
[AAG 2.49*f*]

I. Uncertainty in Income Tax

Notes: In June 2006, FIN 48, *Accounting for Uncertainty in Income Taxes—an interpretation of FASB Statement No. 109*, was issued. The interpretation was effective for fiscal years beginning after December 15, 2006. In February 2008, FSP FIN 48-2, *Effective Date of FASB Interpretation No. 48 for Certain Nonpublic Enterprises*, was issued, which delays the effective date of FIN 48 for certain nonpublic enterprises, including defined benefit plans, to fiscal years beginning after December 15, 2007.

The questions that follow are for plans that have already adopted FIN 48. For additional guidance readers may refer to a practice guide developed by the staff of the AICPA Accounting Standards, Audit and Attest Standards, and Tax Teams titled "Accounting for Uncertain Tax Positions Under FASBI 48" to help practitioners implement FIN 48. FIN 48 interprets SFAS 109, *Accounting for Income Taxes*. Also see the section "Unrelated Business Income Tax and FASB Interpretation No. 48" of the AICPA Audit Risk Alert *Employee Benefit Plans Industry Developments—2008* (product no. 022418) for further discussion.

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1. Does a plan disclose its policy on classification of interest and penalties in accordance with paragraph 19 of FIN 48 in the footnotes to the financial statements? [FIN 48 par. 20]	____	____	____
2. Does a plan disclose the following at the end of each annual reporting period presented:			
a. A tabular reconciliation of the total amounts of unrecognized tax benefits at the beginning and end of the period, which shall include at a minimum:			
(1) The gross amounts of the increases and decreases in unrecognized tax benefits as a result of tax positions taken during a prior period?	____	____	____

	Yes	No	N/A
(2) The gross amounts of increases and decreases in unrecognized tax benefits as a result of tax positions taken during the current period?	____	____	____
(3) The amounts of decreases in the unrecognized tax benefits relating to settlements with taxing authorities?	____	____	____
(4) Reductions to unrecognized tax benefits as a result of a lapse of the applicable statute of limitations?	____	____	____
b. The total amount of unrecognized tax benefits that, if recognized, would affect the effective tax rate?	____	____	____
c. The total amounts of interest and penalties recognized in the statement of changes in net assets available for benefits operations and the total amounts of interest and penalties recognized in the statement of net assets available for benefits?	____	____	____
d. For positions for which it is reasonably possible that the total amounts of unrecognized tax benefits will significantly increase or decrease within 12 months of the reporting date:			
(1) The nature of the uncertainty?	____	____	____
(2) The nature of the event that could occur in the next 12 months that would cause the change?	____	____	____
(3) An estimate of the range of the reasonably possible change or a statement that an estimate of the range cannot be made?	____	____	____
e. A description of tax years that remain subject to examination by major tax jurisdictions? [FIN 48 par. 21]	____	____	____
3. Has the liability for unrecognized tax benefits (or reduction in amounts refundable) **not** been combined with deferred tax liabilities or assets? [FIN 48 par. 17]	____	____	____
4. Is a liability that has been recognized as a result of applying FIN 48, not classified as a deferred tax liability unless it arises from a taxable temporary difference? [FIN 48 par. 18]	____	____	____

J. Plan Terminations

	Yes	No	N/A
1. If a decision is made to terminate the plan or a wasting trust or frozen plan exists, are all relevant circumstances disclosed? [AAG 2.68]	____	____	____
2. If a decision is made to terminate the plan before the end of the plan year, have all benefits been determined on a liquidation basis and reported as vested? [AAG 2.69 and 2.71]	____	____	____
3. If a decision is made to terminate the plan after the end of the plan year but before the financial statements have been issued, is this fact disclosed? [AU 560.05; AAG 2.69]	____	____	____

K. Related-Party Transactions

	Yes	No	N/A
1. For related-party transactions, do disclosures include:			
a. The nature of the relationships involved?	____	____	____

	Yes	No	N/A
b. For each period for which a statement of changes in net assets is presented:			
(1) A description of the transactions, including transactions to which no amounts or nominal amounts were ascribed?	____	____	____
(2) Other information deemed necessary to gain an understanding of the effects of the transactions on the financial statements?	____	____	____
(3) The dollar amount of transactions?	____	____	____
(4) The effects of any changes in the method of establishing the terms from that used in the preceding period?	____	____	____
c. Amounts due from or to related parties as of the date of each "Statement of Net Assets Available for Benefits" presented and, if not otherwise apparent, the terms and manner of settlement? [SFAS 57 par. 2–4]	____	____	____
2. Is the nature of a controlled relationship disclosed (even if there are no transactions between the entities) if the plan and one or more other entities are under common ownership or management control, and the existence of the control could result in operating results or financial position of the plan being significantly different from those that would have resulted if the plan were autonomous? [SFAS 57 par. 2–4]	____	____	____
3. If representations about transactions with related parties are made, do they avoid the implication that the related party transactions were consummated at arm's length, or if such implications are made, can they be substantiated? [SFAS 57 par. 3]	____	____	____
4. Are the nature and extent of leasing transactions with related parties appropriately disclosed? [SFAS 13 par. 29]	____	____	____
5. Are combined financial statements considered for entities under common control? [ARB 51 par. 22–23]	____	____	____
6. Do the financial statements include a description of any agreements and transactions with persons known to be parties-in-interest? [AAG 2.49*h* and A.51*c*]	____	____	____

Practice Tip

ERISA defines a party-in-interest to include fiduciaries or employee of the plan, any person who provides services to the plan, an employer whose employees are covered by the plan, an employee organization whose members are covered by the plan, a person who owns 50 percent or more of such an employer or employee association, or relatives of a person previously described.
[AAG 11.01 and A.94 fn 26; ERISA Section 3(14)]

Yes No N/A

L. Subsequent Events

1. Are the financial statements adjusted for any changes in estimates resulting from subsequent events that provide additional evidence about conditions that existed at the date of the "Statement of Net Assets Available for Benefits"? ____ ____ ____
[SFAS 5 par. 8; AU 560.03–.04 and .07]
2. Are subsequent events that provide evidence about conditions that did not exist at the date of the "Statement of Net Assets Available for Benefits," but arose subsequent to that date, adequately disclosed?[13] ____ ____ ____
[SFAS 5 par. 11; AU 560.05–.07 and .09; AAG 2.49*i* and 2.69]
3. Do disclosures include any unusual or infrequent events or transactions occurring after the latest benefit information date, but before the issuance of the financial statements, that might significantly affect the usefulness of the financial statements in assessing the plan's present and future ability to pay benefits? ____ ____ ____
[SFAS 35 par. 28i]
4. For those unusual or infrequent events or transactions identified in question 3, do disclosures include the effects of such events or transactions, if reasonably determinable, or the reasons why such effects are not reasonably determinable? ____ ____ ____
[SFAS 35 par. 28i]

M. Transfers and Servicing of Financial Assets and Securitizations

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Note: SFAS 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities—a replacement of FASB Statement No. 125*, was amended by SFAS 156, *Accounting for Servicing of Financial Assets—an amendment of FASB Statement No. 140*. SFAS 156 was effective as of the beginning of the first fiscal year beginning after September 15, 2006. If SFAS 156 has been adopted, the following questions that are based on SFAS 140 do not apply and readers should refer to section M1, "Transfers and Servicing of Financial Assets and Securitizations (SFAS 156)."

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1. Is the policy for requiring collateral or other security disclosed if the reporting entity has entered into repurchase agreements or securities lending transactions? ____ ____ ____
[SFAS 140 par. 17a; AAG 2.35]
2. If it is not practicable to estimate the fair value of certain assets obtained or liabilities incurred in transfers of financial assets during the period, are those items and the reasons why it is not practicable to estimate fair value described in the notes to the financial statements? ____ ____ ____
[SFAS 140 par. 17d]
3. For all servicing assets and servicing liabilities are the following disclosures made:
   a. The amounts of servicing assets or liabilities recognized and amortized during the period? ____ ____ ____

[13] Also consider the appropriateness of dual dating the auditor's report for the subsequent event. [AU 530.05]

	Yes	No	N/A
b. The fair value of recognized servicing assets and liabilities for which it is practicable to estimate that value and the method and significant assumptions used to estimate the fair value?	____	____	____
c. The risk characteristics of the underlying financial assets used to stratify recognized servicing assets for purposes of measuring impairment in accordance with paragraph 63 of SFAS 140?	____	____	____
d. The activity in any valuation allowance for impairment of recognized servicing assets—including beginning and ending balances, aggregate additions charged and reductions credited to operations, and aggregate direct write-downs charged against the allowances—for each period for which results of operations are presented? [SFAS 140 par. 17e]	____	____	____
4. If the entity has securitized financial assets during any period presented and accounts for that transfer as a sale, are the following items disclosed for each major asset type:			
a. Its accounting policies for initially measuring the retained interests, if any, including the methodology (whether quoted market price, prices based on sales of similar assets and liabilities, or prices based on valuation techniques) used in determining their fair value?	____	____	____
b. The characteristics of securitizations (a description of the transferor's continuing involvement with the transferred assets, including, but not limited to, servicing, recourse, and restrictions on retained interests) and the gain or loss from sale of financial assets in securitizations?	____	____	____
c. The key assumptions* used in measuring the fair value of retained interests at the time of securitization (including, at a minimum, quantitative information about discount rates, expected prepayments including the expected weighted-average life of prepayable financial assets, and anticipated credit losses, if applicable)?	____	____	____
d. Cash flows between the securitization SPE and the transferor, unless reported separately elsewhere in the financial statements or notes (including proceeds from new securitizations, proceeds from collections reinvested in revolving-period securitizations, purchases of delinquent or foreclosed loans, servicing fees, and cash flows received on interests retained)?	____	____	____
5. If the entity has retained interests in securitized financial assets at the date of the latest statement of financial position presented, are the following items disclosed for each major asset type:			
a. Its accounting policies for subsequently measuring those retained interests, including the methodology (whether quoted market price, prices based on sales of similar assets and liabilities, or prices based on valuation techniques) used in determining their fair value?	____	____	____

* If an entity has made multiple securitizations of the same major asset type during a period, it may disclose the range of assumptions.

	Yes	No	N/A
b. The key assumptions used in subsequently measuring the fair value of those interests (including, at a minimum, quantitative information about discount rates, expected prepayments including the expected weighted-average life of prepayable financial assets, and anticipated credit losses, including expected static pool losses, if applicable)?	____	____	____
c. A sensitivity analysis or stress test showing the hypothetical effect on the fair value of those interests of two or more unfavorable variations from the expected levels for each key assumption that is reported under *b* independently from any change in another key assumption, and a description of the objectives, methodology, and limitations of the sensitivity analysis or stress test?	____	____	____
d. For the securitized assets and any other financial assets that it manages together with them:†			
(1) The total principal amount outstanding, the portion that has been derecognized, and the portion that continues to be recognized in each category reported in the statement of financial position, at the end of the period?	____	____	____
(2) Delinquencies at the end of the period?	____	____	____
(3) Credit losses, net of recoveries, during the period?	____	____	____

Disclosure of average balances during the period is encouraged, but not required.
[SFAS 140 par. 17f–g]

Collateral

	Yes	No	N/A
6. *a.* If the entity has pledged any of its assets as collateral that are not reclassified and separately reported in the statement of financial position pursuant to paragraph 15a of SFAS 140, is the carrying amount and classification of those assets as of the date of the latest statement of financial position presented? [SFAS 140 par. 17a(2)]	____	____	____
b. If the entity has accepted collateral that it is permitted by contract or custom to sell or repledge, is the fair value, as of the date of each statement of financial position presented, of that collateral and of the portion of that collateral that it has sold or repledged disclosed? [SFAS 140 par. 17a(3)]	____	____	____
c. Is information about the sources and uses of that collateral, as of the date of each statement of financial position presented, disclosed? [SFAS 140 par. 17(a)(3)]	____	____	____

† Excluding securitized assets that an entity continues to service but with which it has no other continuing involvement.

	Yes	No	N/A
M1. Transfers and Servicing of Financial Assets and Securitizations (SFAS 156)			

Notes: If SFAS 156 has been adopted, the following section should be completed.

An entity shall adopt SFAS 156 as of the beginning of its first fiscal year that begins after September 15, 2006. Earlier adoption is permitted as of the beginning of an entity's fiscal year, provided the entity has not yet issued financial statements, including interim financial statements, for any period of that fiscal year. The effective date of this statement is the date that an entity adopts the requirements of this statement.

1. Is the policy for requiring collateral or other security disclosed if the reporting entity has entered into repurchase agreements or securities lending transactions? ____ ____ ____
[SFAS 140, as amended by SFAS 156 par. 17a; AAG 4.60]
2. If it is not practicable to estimate the fair value of certain assets obtained or liabilities incurred in transfers of financial assets during the period, are those items and the reasons why it is not practicable to estimate fair value described in the notes to the financial statements? ____ ____ ____
[SFAS 140, as amended par. 17d]
3. For all servicing assets and servicing liabilities are the following disclosures made:
   a. Management's basis for determining its classes of servicing assets and servicing liabilities? ____ ____ ____
   b. A description of the risks inherent in servicing assets and servicing liabilities and, if applicable, the instruments used to mitigate the income statement effect of changes in fair value of the servicing assets and servicing liabilities? (Disclosure of quantitative information about the instruments used to manage the risks inherent in servicing assets and servicing liabilities, including the fair value of those instruments at the beginning and end of the period, is encouraged but not required.) ____ ____ ____
   c. The amount of contractually specified servicing fees (as defined in the glossary), late fees, and ancillary fees earned for each period for which results of operations are presented, including a description of where each amount is reported in the statement of income? ____ ____ ____
4. For servicing assets and servicing liabilities subsequently measured at fair value:
   a. For each class of servicing assets and servicing liabilities, the activity in the balance of servicing assets and the activity in the balance of servicing liabilities (including a description of where changes in fair value are reported in the statement of income for each period for which results of operations are presented), including, but not limited to, the following:
      (1) The beginning and ending balances? ____ ____ ____

Yes No N/A

(2) Additions (through purchases of servicing assets, assumptions of servicing obligations, and servicing obligations that result from transfers of financial assets)? ____ ____ ____

(3) Disposals? ____ ____ ____

(4) Changes in fair value during the period resulting from:

(i) Changes in valuation inputs or assumptions used in the valuation model? ____ ____ ____

(ii) Other changes in fair value and a description of those changes? ____ ____ ____

(5) Other changes that affect the balance and a description of those changes? ____ ____ ____

b. A description of the valuation techniques or other methods used to estimate the fair value of servicing assets and servicing liabilities? If a valuation model is used, the description shall include the methodology and model validation procedures, as well as quantitative and qualitative information about the assumptions used in the valuation model (for example, discount rates and prepayment speeds). (An entity that provides quantitative information about the instruments used to manage risks inherent in the servicing assets and servicing liabilities, as encouraged by paragraph 17(e)(2) of SFAS 140, as amended by SFAS 156, is also encouraged, but not required, to disclose a description of the valuation techniques, as well as quantitative and qualitative information about the assumptions used to estimate the fair value of those instruments.) ____ ____ ____

5. For servicing assets and servicing liabilities subsequently amortized in proportion to and over the period of estimated net servicing income or loss and assessed for impairment or increased obligation:

a. For each class of servicing assets and servicing liabilities, the activity in the balance of servicing assets and the activity in the balance of servicing liabilities (including a description of where changes in the carrying amount are reported in the statement of income for each period for which results of operations are presented), including, but not limited to, the following:

(1) The beginning and ending balances? ____ ____ ____

(2) Additions (through purchases or servicing assets, assumption of servicing obligations, and servicing obligations that result from transfers of financial assets)? ____ ____ ____

(3) Disposals? ____ ____ ____

(4) Amortization? ____ ____ ____

(5) Application of valuation allowance to adjust carrying value of servicing assets? ____ ____ ____

(6) Other-than-temporary impairments? ____ ____ ____

(7) Other changes that affect the balance and a description of those changes? ____ ____ ____

	Yes	No	N/A
b. For each class of servicing assets and servicing liabilities, the fair value of recognized servicing assets and servicing liabilities at the beginning and end of the period if it is practicable to estimate the value?	____	____	____
c. A description of the valuation techniques or other methods used to estimate fair value of the servicing assets and servicing liabilities? If a valuation model is used, the description shall include the methodology and model validation procedures, as well as quantitative and qualitative information about the assumptions used in the valuation model (for example, discount rates and prepayment speeds). (An entity that provides quantitative information about the instruments used to manage risks inherent in the servicing assets and servicing liabilities, as encouraged by paragraph 17(e)(2) of SFAS 140, as amended by SFAS 156, is also encouraged, but not required, to disclose a description of the valuation techniques as well as quantitative and qualitative information about the assumptions used to estimate the fair value of those instruments.)	____	____	____
d. The risk characteristics of the underlying financial assets used to stratify recognized servicing assets for purposes of measuring impairment in accordance with paragraph 63 of SFAS 140, as amended by SFAS 156?	____	____	____
e. The activity by class in any valuation allowance for impairment of recognized servicing assets—including beginning and ending balances, aggregate additions charged and recoveries credited to operations, and aggregate write-downs charged against the allowance—for each period for which results of operations are presented?	____	____	____
6. If the entity has securitized financial assets during any period presented and accounts for that transfer as a sale, are the following items disclosed for each major asset type:			
a. Its accounting policies for initially measuring the interests that continue to be held by the transferor, if any, and servicing assets or servicing liabilities, if any, including the methodology (whether quoted market price, prices based on sales of similar assets and liabilities, or prices based on valuation techniques) used in determining their fair value?	____	____	____
b. The characteristics of securitizations (a description of the transferor's continuing involvement with the transferred assets, including, but not limited to, servicing, recourse, and restrictions on interests that continue to be held by the transferor) and the gain or loss from sale of financial assets in securitizations?	____	____	____
c. The key assumptions[9] used in measuring the fair value of interests that continue to be held by the transferor and servicing assets or servicing liabilities, if any, at the time of securitization (including, at a minimum, quantitative information about discount rates, expected prepayments including the expected weighted-average life of prepayable financial assets, and anticipated credit losses, if applicable)?	____	____	____

[9] ***Note***: Derivative instruments used for risk management purposes include those designated as hedging instruments as well as those used as economic hedges and for other purposes related to the plan's risk exposure.

Yes No N/A

d. Cash flows between the securitization SPE and the transferor, unless reported separately elsewhere in the financial statements or notes (including proceeds from new securitizations, proceeds from collections reinvested in revolving-period securitizations, purchases of delinquent or foreclosed loans, servicing fees, and cash flows received on interests that continue to be held by the transferor)? ____ ____ ____

7. If the entity has interests that continue to be held by the transferor in financial assets that it has securitized or servicing assets or servicing liabilities relating to assets that it has securitized, at the date of the latest statement of financial position presented, are the following items disclosed for each major asset type:

   a. Its accounting policies for subsequently measuring those retained interests, including the methodology (whether quoted market price, prices based on sales of similar assets and liabilities, or prices based on valuation techniques) used in determining their fair value? ____ ____ ____

   b. The key assumptions used in subsequently measuring the fair value of those interests (including, at a minimum, quantitative information about discount rates, expected prepayments including the expected weighted-average life of prepayable financial assets, and anticipated credit losses, including expected static pool losses, if applicable)? ____ ____ ____

   c. A sensitivity analysis or stress test showing the hypothetical effect on the fair value of those interests (including any servicing assets or servicing liabilities) of two or more unfavorable variations from the expected levels for each key assumption that is reported under *b* independently from any change in another key assumption, and a description of the objectives, methodology, and limitations of the sensitivity analysis or stress test? ____ ____ ____

   d. For the securitized assets and any other financial assets that it manages together with them:

      (1) The total principal amount outstanding, the portion that has been derecognized, and the portion that continues to be recognized in each category reported in the statement of financial position, at the end of the period? ____ ____ ____

      (2) Delinquencies at the end of the period? ____ ____ ____

      (3) Credit losses, net of recoveries, during the period? (Disclosure of average balances during the period is encouraged, but not required.) ____ ____ ____
      [SFAS 140, as amended by SFAS 156 par. 17e–i]

	Yes	No	N/A

N. Fair Value Measurements

Notes: In September 2006, FASB issued SFAS 157, which is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. Earlier application is encouraged, provided that the reporting entity has not yet issued financial statements for that fiscal year, including any financial statements for an interim period within that fiscal year.
(AAG 2.10)

The statement shall be applied prospectively as of the beginning of the fiscal year in which this statement is initially applied. Certain exceptions apply. Readers should refer to the statement for those exceptions.

In February 2008, the FASB issued FSP FAS 157-2, *Effective Date of FASB Statement No. 157*, which delays the effective date of SFAS 157 for nonfinancial assets and nonfinancial liabilities, except for items that are recognized and disclosed at fair value in the financial statements on a recurring basis. FSP FAS 157-2 defers the effective date of SFAS 157 for nonfinancial assets and nonfinancial liabilities to fiscal years beginning after November 15, 2008. As most a majority of plans have assets and liabilities that are recognized and disclosed at fair value, this deferral would not be applicable. In the event, a plan holds such nonfinancial assets, it is advisable to consult the text of FSP FAS 157-2 which is available online at www.fasb.org.

1. For assets and liabilities that are measured at fair value on a recurring basis in periods subsequent to initial recognition (for example, trading securities), the reporting entity shall disclose information that enables users of its financial statements to assess the inputs used to develop those measurements and for recurring fair value measurements using significant unobservable inputs (Level 3), the effect of the measurements on earnings (or changes in net assets) for the period. To meet that objective, the reporting entity shall disclose the following information for each interim and annual period (except as otherwise specified) separately for each major category of assets and liabilities:
   a. The fair value measurements at the reporting date, ____ ____ ____
   b. The level within the fair value hierarchy in which the fair value measurements in their entirety fall, segregating fair value measurements using quoted prices in active markets for identical assets or liabilities (Level 1), significant other observable inputs (Level 2), and significant unobservable inputs (Level 3), ____ ____ ____
   c. For fair value measurements using significant unobservable inputs (Level 3), a reconciliation of the beginning and ending balances, separately presenting changes during the period attributable to the following:[14]

[14] For derivative assets and liabilities, the reconciliation disclosure required by paragraph 32(c) may be presented net.

	Yes	No	N/A
(1) Total gains or losses for the period (realized and unrealized), segregating those gains or losses included in earnings (or changes in net assets), and a description of where those gains or losses included in earnings (or changes in net assets) are reported in the statement of income (or activities),	____	____	____
(2) Purchases, sales, issuances, and settlements (net),	____	____	____
(3) Transfers in or out, or both, of Level 3 (for example, transfers due to changes in the observability of significant inputs).	____	____	____
d. The amount of the total gains or losses for the period in subparagraph (c)(1) included in earnings (or changes in net assets) that are attributable to the change in unrealized gains or losses relating to those assets and liabilities still held at the reporting date and a description of where those unrealized gains or losses are reported in the statement of income (or activities),	____	____	____
e. In annual periods only, the valuation technique(s) used to measure fair value and a discussion of changes in valuation techniques, if any, during the period. [SFAS 157 par. 32]	____	____	____
2. For assets and liabilities that are measured at fair value on a nonrecurring basis in periods subsequent to initial recognition (for example, impaired assets), the reporting entity shall disclose information that enables users of its financial statements to assess the inputs used to develop those measurements. To meet that objective, the reporting entity shall disclose the following information for each interim and annual period (except as otherwise specified) separately for each major category of assets and liabilities:			
a. The fair value measurements recorded during the period and the reasons for the measurements,	____	____	____
b. The level within the fair value hierarchy in which the fair value measurements in their entirety fall, segregating fair value measurements using quoted prices in active markets for identical assets or liabilities (Level 1), significant other observable inputs (Level 2), and significant unobservable inputs (Level 3),	____	____	____
c. For fair value measurements using significant unobservable inputs (Level 3), a description of the inputs and the information used to develop the inputs,	____	____	____
d. In annual periods only, the valuation technique(s) used to measure fair value and a discussion of changes, if any, in the valuation technique(s) used to measure similar assets or liabilities in prior periods. [SFAS 157 par. 33]	____	____	____
3. Are the quantitative disclosures required by SFAS 157 presented using a tabular format? (See appendix A of SFAS 157 for implementation guidance and examples.) [SFAS 157 par. 34]	____	____	____

	Yes	*No*	*N/A*
4. Is the fair value information disclosed under SFAS 157 and the fair value information disclosed under other accounting pronouncements (for example, SFAS 107) combined in the periods in which those disclosures are required, if practicable? (***Encouraged, but not required.***) [SFAS 157 par. 35]	____	____	____
5. Is information about other similar measurements (for example, inventories measured at market value under ARB 43, *Restatement and Revision of Accounting Research Bulletins*, chapter 4) disclosed, if practicable? (***Encouraged, but not required.***) [SFAS 157 par. 35]	____	____	____

Transition Guidance

6. At the date this statement is initially applied to the financial instruments in paragraph 37(a)–(c), is the difference between the carrying amounts and the fair values of those instruments recognized as a cumulative-effect adjustment to the opening balance of retained earnings (or other appropriate components of equity or net assets in the statement of financial position) for that fiscal year, presented separately? [SFAS 157 par. 38]	____	____	____

Note: The disclosure requirements of SFAS 154 for a change in accounting principle do not apply.

7. Are the disclosure requirements of this statement (paragraphs 32–35), including those disclosures that are required in annual periods only, applied in the first interim period of the fiscal year in which this statement is initially applied? [SFAS 157 par. 39]	____	____	____

Notes: The disclosure requirements of this statement need not be applied for financial statements for periods presented prior to initial application of this statement.

In February 2007, FASB issued SFAS 159, *The Fair Value Option for Financial Assets and Financial Liabilities—Including an amendment of FASB Statement No. 115*, which is effective as of the beginning of an entity's first fiscal year that begins after November 15, 2007. Early adoption is permitted as of the beginning of an fiscal year that begins on or before November 15, 2007, provided the entity also elects to apply the provisions of SFAS 157.

No entity is permitted to apply this statement retrospectively to fiscal years preceding the effective date unless the entity chooses early adoption. The choice to adopt early should be made after issuance of this statement but within 120 days of the beginning of the fiscal year of adoption, provided the entity has not yet issued financial statements, including required notes to those financial statements, for any interim period of the fiscal year of adoption.

This statement permits application to eligible items existing at the effective date (or early adoption date). Readers should refer to the complete statement for more detailed information regarding early adoption and effective date.

Yes No N/A

Note: The disclosures described in paragraphs 18–22 of SFAS 159 are required for items measured at fair value under the option in SFAS 159 and the option in paragraph 16 of SFAS 133 (as amended by SFAS 155, *Accounting for Certain Hybrid Financial Instruments—an amendment of FASB Statements No. 133 and 140*). Those disclosures are not required for securities classified as trading securities under SFAS 115, *Accounting for Certain Investments in Debt and Equity Securities*, life settlement contracts measured at fair value pursuant to FSP FTB 85-4-1, "Accounting for Life Settlement Contracts by Third-Party Investors," or servicing rights measured at fair value pursuant to SFAS 156, *Accounting for Servicing of Financial Assets—an amendment of FASB Statement No. 140*. Entities shall provide the disclosures required by paragraphs 18–22 of SFAS 159 in both interim and annual financial statements. Entities are encouraged but are not required to present the disclosures required by SFAS 159 in combination with related fair value information required to be disclosed by other statements (for example, SFAS 107 and SFAS 157). Appendix B of SFAS 159 provides illustrative fair value disclosures.

Required Disclosures as of Each Date for Which an Interim or Annual Statement of Financial Position Is Presented

8. As of each date for which a statement of financial position is presented, do the entities disclose the following:
   a. Management's reasons for electing a fair value option for each eligible item or group of similar eligible items? ____ ____ ____
   b. If the fair value option is elected for some but not all eligible items within a group of similar eligible items:
      (1) A description of those similar items and the reasons for partial election? ____ ____ ____
      (2) Information to enable users to understand how the group of similar items relates to individual line items on the statement of financial position? ____ ____ ____
   c. For each line item in the statement of financial position that includes an item or items for which the fair value option has been elected:
      (1) Information to enable users to understand how each line item in the statement of financial position relates to major categories of assets and liabilities presented in accordance with SFAS 157's fair value disclosure requirements? ____ ____ ____
      (2) The aggregate carrying amount of items included in each line item in the statement of financial position that are not eligible for the fair value option, if any? ____ ____ ____
   d. The difference between the aggregate fair value and the aggregate unpaid principal balance of:
      (1) Loans and long-term receivables (other than securities subject to SFAS 115) that have contractual principal amounts and for which the fair value option has been elected? ____ ____ ____
      (2) Long-term debt instruments that have contractual principal amounts and for which the fair value option has been elected? ____ ____ ____

	Yes	No	N/A
e. For loans held as assets for which the fair value option has been elected:			
(1) The aggregate fair value of loans that are 90 days or more past due?	____	____	____
(2) If the entity's policy is to recognize interest income separately from other changes in fair value, the aggregate fair value of loans in nonaccrual status?	____	____	____
(3) The difference between the aggregate fair value and the aggregate unpaid principal balance for loans that are 90 days or more past due, in nonaccrual status, or both?	____	____	____
f. For investments that would have been accounted for under the equity method if the entity had not chosen to apply the fair value option 4, the information required by paragraph 20 of APB 18, *The Equity Method of Accounting for Investments in Common Stock* (excluding the disclosures in paragraphs 20(a)(3), 20(b), and 20(e) of that Opinion)?	____	____	____

Required Disclosures for Each Period for Which an Interim or Annual Income Statement Is Presented

	Yes	No	N/A
9. For each period for which an income statement is presented, do entities disclose the following about items for which the fair value option has been elected:			
a. For each line item in the statement of financial position, the amounts of gains and losses from fair value changes included in earnings during the period and in which line in the income statement those gains and losses are reported? (The statement does not preclude an entity from meeting this requirement by disclosing amounts of gains and losses that include amounts of gains and losses for other items measured at fair value, such as items required to be measured at fair value.)	____	____	____
b. A description of how interest and dividends are measured and where they are reported in the income statement? (The statement does not address the methods used for recognizing and measuring the amount of dividend income, interest income, and interest expense for items for which the fair value option has been elected.)	____	____	____
c. For loans and other receivables held as assets:			
(1) The estimated amount of gains or losses included in earnings during the period attributable to changes in instrument-specific credit risk?	____	____	____
(2) How the gains or losses attributable to changes in instrument-specific credit risk were determined?	____	____	____
d. For liabilities with fair values that have been significantly affected during the reporting period by changes in the instrument-specific credit risk:			
(1) The estimated amount of gains and losses from fair value changes included in earnings that are attributable to changes in the instrument specific credit risk?	____	____	____
(2) Qualitative information about the reasons for those changes?	____	____	____

	Yes	No	N/A
(3) How the gains and losses attributable to changes in instrument-specific credit risk were determined? [SFAS 159 par. 19]	____	____	____

Note: The disclosure requirements in paragraphs 18–19 of SFAS 159 do not eliminate disclosure requirements included in other GAAP pronouncements, including other disclosure requirements relating to fair value measurement.
[SFAS 159 par. 20]

Other Required Disclosures

	Yes	No	N/A
10. In annual periods only, does an entity disclose the methods and significant assumptions used to estimate the fair value of items for which the fair value option has been elected? [SFAS 159 par. 21]	____	____	____
11. If an entity elects the fair value option at the time one of the events in paragraphs 9(d) and (e) of SFAS 159 occurs, does the entity disclose the following in financial statements for the period of the election:			
a. Qualitative information about the nature of the event?	____	____	____
b. Quantitative information by line item in the statement of financial position indicating which line items in the income statement include the effect on earnings of initially electing the fair value option for an item? [SFAS 159 par. 22]	____	____	____

O. Other Matters

	Yes	No	N/A
1. Do disclosures include the funding policy of the pension plan and any changes in such policy during the plan year? [SFAS 35 par. 28d; AAG 2.49*d*]	____	____	____
a. If significant costs of plan administration are being absorbed by the employer, is this fact disclosed? [SFAS 35 par. 28d fn 17]	____	____	____
b. For a contributory plan, does the disclosure on funding policy state the method of determining the participants' contributions? [SFAS 35 par. 28d; AAG 2.49*d*]	____	____	____
c. For ERISA plans, do disclosures include whether the minimum funding requirements of ERISA are met? [SFAS 35 par. 28d; AAG 2.49*d*]	____	____	____
d. If a minimum funding waiver has been granted by the Internal Revenue Service (IRS) or if a request for a waiver is pending before the IRS, is this fact disclosed? [SFAS 35 par. 28d]	____	____	____
e. Does the plan include a brief description of how contributions are determined pursuant to the actuarial cost method? [SFAS 35 par. 262] (optional)	____	____	____

	Yes	No	N/A
f. Did the plan disclose information regarding the estimated future impact of the funding policy on an existing difference between the net asset and benefit information? [SFAS 35 par. 263] (optional)	____	____	____
2. Do disclosures include the policy regarding the purchase of insurance contracts that are excluded from plan assets and the income from those contracts? [SFAS 35 par. 28e; AAG 2.49*e*]	____	____	____
3. Do disclosures include significant real estate or other transactions in which the plan and any of the following parties are jointly involved: (*a*) the sponsor, (*b*) the employer(s), or (*c*) the employee organization(s)? [See also section K, "Related-Party Transactions," regarding parties-in-interest] [SFAS 35 par. 28h; AAG 2.49*h*]	____	____	____

ERISA Reporting Requirements

A. Form 5500 Series Report

	Yes	No	N/A
1. Did plans with 100 or more participants at the beginning of the plan year file an annual report (Form 5500) containing financial statements prepared in accordance with either GAAP or an other comprehensive basis of accounting (OCBOA), such as the cash basis or modified cash basis of accounting, separate schedules, notes (required for a full and fair presentation), and an independent public accountant's report prepared under generally accepted auditing standards? [AAG 13.20 and A.23]	____	____	____

Practice Tip

DOL regulations permit plans that have between 80 and 120 participants (inclusive) at the beginning of the plan year to complete the Form 5500 in the same category (*large plan* or *small plan*) as was filed for the previous year. The Form 5500 is filed with the Employee Benefits Security Administration (EBSA) in Lawrence, Kansas, in accordance with the instructions to the form. (See FSP section 7000.22–.25 for a discussion about the Form 5500.)

B. Financial Statement Disclosures Required Under the Alternative Method of Compliance for Pension Plans Pursuant to DOL Regulations Section CFR 2520.103 and Section 103 of ERISA

1. If the financial statements of the pension plan are filed under the *alternative method* pursuant to DOL Regulations Sec. 2520.103-1(a)(2), do the disclosures in the financial statements include:

	Yes	No	N/A
a. A description of accounting principles and variances from GAAP?	____	____	____
b. A description of the plan, including significant changes in the plan, and the effect of the changes on benefits?	____	____	____
c. The funding policy and changes in the funding policy from the prior year?	____	____	____
d. A description of material lease commitments, and other commitments and contingent liabilities?	____	____	____

	Yes	No	N/A
e. A description of any agreements and transactions with persons known to be parties-in-interest?	____	____	____
f. A general description of priorities in the event of plan termination?	____	____	____
g. Whether a tax ruling or determination letter has been obtained?	____	____	____
h. An explanation of any differences between the separate financial statements and the financial information required on Form 5500? [AAG A.50a and A.51c]	____	____	____

Practice Tip

Because ERISA requires 401(h) accounts to be reported as assets of the defined benefit pension plan, and GAAP requires them to be deducted before arriving at the total of net assets available for pension benefits, a reconciliation of the net assets reported in the financial statements to those reported in Form 5500 is required. The reconciliation should be accompanied by a discussion of the 401(h) account, explaining clearly that the assets in the 401(h) account are not available to pay pension benefits. Additionally, any assets held for investment purposes in the 401(h) account should be shown on the Schedule H, line 4i—Schedule of Assets (Held at End of Year) and Schedule H, line 4j—Schedule of Reportable Transactions for the pension plan.
[SOP 99-2 par. 14 (ACC 10,780.14); AAG 2.62]

C. Required Financial Statements and Supporting Schedules

1. For plans filing under either method (statutory or alternative), are the following financial statements included and covered by the auditor's report:

	Yes	No	N/A
a. Statement of plan assets and liabilities by category at fair value and in comparative form for the beginning and end of the plan year?	____	____	____
b. Separate or combined statements of plan income and expenses and of changes in net assets? [AAG A.51a]	____	____	____

2. The Form 5500 requires that certain supplemental schedules be attached to the annual Form 5500 filing. The information reported in these schedules has not changed from prior years. However, reporting is standardized in that some of these schedules are required to be reported on Schedule G, Financial Transactions Schedules of Form 5500. Pursuant to DOL regulations, are the following *separate schedules* included with the financial statements of the plan and covered by the auditor's report:

Practice Tip

The instructions to the Form 5500 provide specific information as to the form and content of the various schedule requirements.

	Yes	No	N/A
a. The Schedule H, line 4i—Schedule of Assets (Held at End of Year). Does the schedule use the format shown here and is it clearly labeled "Schedule H, line 4i—Schedule of Assets (Held at End of Year)?" (If filing under the alternative method, a separate schedule of assets held at plan year-end and a schedule of certain assets acquired and disposed of within the plan year.) [AAG exhibit A-1]	____	____	____

Yes *No* *N/A*

(a)	(b) Identity of issue, borrower, lessor, or similar party	(c) Description of investment including maturity date, rate of interest, collateral, par, or maturity value	(d) Cost	(e) Current value

Practice Tip

Participant loans may be aggregated and presented with a general description of terms and interest rates. In column (d), cost information may be omitted with respect to participant or beneficiary directed transactions under an individual account plan. Any assets held for investment purposes in the 401(h) account should be shown on Schedule H, line 4i—Schedule of Assets (Held at End of Year), and Schedule H, line 4j—Schedule of Reportable Transactions, for the pension plan.

b. The Schedule H, line 4i—Schedule of Assets (Acquired and Disposed of Within the Plan Year) (see 2520.103-11). Is the schedule clearly labeled "Schedule H, line 4i—Schedule of Assets (Acquired and Disposed of Within the Plan Year)" and does it use the following format? [AAG exhibit A-1] ____ ____ ____

(a) Identity of issue, borrower, lessor, or similar party	(b) Description of investment including maturity date, rate of interest, collateral, par, or maturity value	(c) Cost of acquisitions	(d) Proceeds of dispositions

Practice Tip

In column (c), cost information may be omitted with respect to participant or beneficiary directed transactions under an individual account plan.

c. The Schedule H, line 4j—Schedule of Reportable Transactions. Is this schedule clearly labeled "Schedule H, line 4j—Schedule of Reportable Transactions" and does it use the following format? [AAG exhibit A-1] ____ ____ ____

(a) Identity of party involved	(b) Description of asset (include interest rate and maturity in case of a loan)	(c) Purchase price	(d) Selling price	(e) Lease rental	(f) Expense incurred with transaction	(g) Cost of asset	(h) Current value of asset on transaction date	(i) Net gain or (loss)

Practice Tip

Participant or beneficiary directed transactions under an individual account plan should not be taken into account for purposes of preparing this schedule. The current value of all assets of the plan, including those resulting from participant direction, should be included in determining the 5 percent figure for all other transactions. Any assets held for investment purposes in the 401(h) account should be shown on Schedule H, line 4i—Schedule of Assets (Held at End of Year), and Schedule H, line 4j—Schedule of Reportable Transactions, for the pension plan.

d. The Schedule H, Line 4a—Schedule of Delinquent Participant Contributions? ____ ____ ____

Yes No N/A

Practice Tip

Information on delinquent participant contributions should be reported on line 4a of either Schedule H or Schedule I of the Form 5500. Information on delinquent participant contributions is no longer required to also be reported on line 4d of Schedule H or Schedule G, rather delinquent participant contributions may be reported on a separate supplemental schedule to be attached to the Form 5500 and reported on by the Independent Qualified Public Accountant (IQPA). For further guidance see the EBSA Web site frequently asked questions at www.dol.gov/ebsa/faqs/faq_compliance_5500.html.

e. Are the following schedules reported on Schedule G, *Financial Transactions Schedules,* of the Form 5500:

(1) Schedule G, Part I—Schedule of Loans or Fixed Income Obligations in Default or Classified as Uncollectible? ____ ____ ____

(2) Schedule G, Part II—Schedule of Leases in Default or Classified as Uncollectible? ____ ____ ____

(3) Schedule G, Part III—Nonexempt Transactions? ____ ____ ____
[AAG exhibit A-1]

Practice Tip

Plans filing their annual reports under the statutory method are required to report transactions that exceed 3 percent of the fair value of plan assets at the beginning of the year, whereas plans that file pursuant to the alternative method of compliance prescribed in DOL regulations are required to report transactions that exceed 5 percent of the fair value of plan assets at the beginning of the year. For a new plan, the percentage amount applies to the fair value of plan assets at the end of the year.
[AAG A.51 fn 19]

FSP Section 7300

Auditors' Report Checklist

.01 This checklist has been developed by the staff of the Accounting and Auditing Publications Team of the AICPA as a nonauthoritative practice aid.

.02 This checklist contains numerous references to authoritative accounting and auditing pronouncements. Abbreviations and acronyms used in such references include the following:

AAG =	AICPA Audit and Accounting Guide *Employee Benefit Plans* (with conforming changes as of March 1, 2008)
AU=	Reference to section number in AICPA *Professional Standards* (vol. 1)
AR=	Reference to section number in AICPA *Professional Standards* (vol. 2)
CFR=	Code of Federal Regulations
DOL=	Department of Labor
PCAOB=	Public Company Accounting Oversight Board
SAS =	AICPA Statement on Auditing Standards

.03 The PCAOB establishes standards for audits of *issuers*, as that term is defined by the Sarbanes-Oxley Act of 2002 (the act) or whose audit is prescribed by the rules of the Securities and Exchange Commission (SEC). Other entities are referred to as *nonissuers*.

.04 Checklist Questionnaire:

	Yes	*No*	*N/A*
1. Is each financial statement audited, specifically identified in the introductory paragraph of the auditor's report? [AU 508.06]	____	____	____
2. Do the titles of the financial statements referred to in the introductory paragraph of the auditor's report match the titles of the financial statements presented? [Generally Accepted]	____	____	____
3. Do the dates of the financial statements referred to in the introductory paragraph of the auditor's report match the dates of the financial statements presented? [Generally Accepted]	____	____	____
4. Is the report appropriately addressed? [AU 508.09]	____	____	____
5. Does the auditor's report include:			
a. A title that includes the word "independent"? [AU 508.08*a*]	____	____	____
b. A statement that the financial statements identified in the report were audited? [AU 508.08*b*]	____	____	____

	Yes	No	N/A
c. A statement that the financial statements are the responsibility of management and that the auditor's responsibility is to express an opinion on the financial statements based on his or her audit? [AU 508.08*c*]	____	____	____
d. ***(Audits of Nonpublic Companies Only)*** A statement that the audit was conducted in accordance with generally accepted auditing standards (GAAS) and an identification of the country of origin of those standards (for example, auditing standards generally accepted in the United States of America or U.S. GAAS)? [AU 508.08*d*]	____	____	____
e. ***(Audits of Public Companies Only—Including 11-K Filings)*** A statement that the audit was conducted in accordance with the standards of the PCAOB (United States)? [PCAOB AS 1 app. par. 3]	____	____	____
f. A statement that those standards require that the auditor plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement? [AU 508.08*e*]	____	____	____
g. A statement that an audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation? [AU 508.08*f*]	____	____	____
h. A statement that the auditor believes that his or her audit provides a reasonable basis for his or her opinion? [AU 508.08*g*]	____	____	____
i. An opinion as to whether the financial statements present fairly, in all material respects, the net assets of the plan as of the balance sheet date and the changes in net assets for the period then ended in conformity with accounting principles generally accepted in the United States of America? [AU 508.08*h*]	____	____	____
or			
j. If the plan prepares its financial statements on a comprehensive basis of accounting other than generally accepted accounting principles (GAAP):			
(1) Does the report include a paragraph that:			
(i) States the basis of presentation and refers to the note to the financial statements that describes the basis?	____	____	____
(ii) States that the basis of presentation is a comprehensive basis of accounting other than GAAP?	____	____	____
(iii) Expresses the auditor's opinion (or disclaims an opinion) on whether the financial statements are presented fairly, in all material respects, in conformity with the basis of accounting described?	____	____	____

	Yes	No	N/A
(2) If the auditor concludes that the financial statements are not presented fairly on the basis of accounting described or if there has been a limitation on the scope of the audit, does the report:			
(i) Disclose (in an explanatory paragraph preceding the opinion paragraph) all the substantive reasons for that conclusion?	____	____	____
(ii) Include in the opinion paragraph the appropriate modifying language and a reference to such explanatory paragraph(s)? [AU 623.05*d–e*]	____	____	____
k. The manual or printed signature of the auditor's firm? [AU 508.08*i*]	____	____	____
l. The date (or dual dates)* of the audit report? [AU 508.08*j*]	____	____	____

Practice Tips

DOL regulations require the auditor's report to be dated and manually signed and to identify the city and state where issued.

AU section 530, *Dating of the Independent Auditor's Report*, says the auditor's report should not be dated earlier than the date on which the auditor has obtained sufficient appropriate audit evidence to support the opinion. Such sufficient appropriate audit evidence includes management having asserted responsibility for the final financial statements. In May 2007, the AICPA issued a Technical Practice Aid (TPA) providing nonauthoritative guidance regarding the effect of obtaining the management representation letter on dating the auditor's report. See TPA Technical Questions and Answers (TIS) section 9100.06, "The Effect of Obtaining the Management Representation Letter on Dating the Auditor's Report" (AICPA, *Technical Practice Aids*), for this and other helpful guidance regarding the auditor's report.

	Yes	No	N/A
6. If a subsequent event disclosed in the financial statements occurs after the date of the independent auditor's report but before the issuance of the related financial statement, has the need for dual-dating of the report been considered? [AU 530.03–.05]	____	____	____
7. If the accountant is not independent, is a compilation report indicating the lack of independence issued (nonpublic companies only)? [AU 504.10; SSARS 1 par. 19 and 45 (AR 100.19 and .45)]	____	____	____
8. Does the report include appropriate language for the following situations:			
a. Only one basic financial statement is presented and there are no scope limitations? [AU 508.33–.34]	____	____	____
b. Audited and unaudited financial statements are presented in comparative form? [AU 504.14–.17]	____	____	____
c. The financial statements of the plan contain supplemental schedules relating to ERISA and DOL regulations? [AAG 13.08–.18]	____	____	____

* If a subsequent event is disclosed, the appropriateness of dual dating the report should be considered. [AU 530.05]

Yes No N/A

Practice Tip

The guide includes additional auditor reports with respect to "change in trustee," "financial statements of a trust," and "inadequate procedures to value investments."
[AAG 13.31, 13.33, and 13.38]

Explanatory Paragraphs

9. If the opinion is based in part on the report of another auditor:
   a. Does the introductory paragraph of the standard report disclose the fact that the opinion is based, in part, on the report of other auditors? ____ ____ ____
   b. Does the opinion paragraph include a reference to the report of the other auditor? ____ ____ ____
   [AU 508.11*a* and .12–.13]
10. If, to prevent the financial statements from being misleading because of unusual circumstances, the financial statements contain a departure from an accounting principle promulgated by a body designated by the AICPA council to establish such principles, does the report include, in a separate paragraph or paragraphs, the information required by the rule? ____ ____ ____
    [AU 508.11*b* and .15]
11. If there is substantial doubt about the plan's ability to continue as a going concern:
    a. Does the report include an explanatory paragraph, following the opinion paragraph, to reflect that conclusion? ____ ____ ____
    b. Is that conclusion expressed through the use of the phrase "substantial doubt about its (the plan's) ability to continue as a going concern" or similar wording that includes the terms substantial doubt and going concern? ____ ____ ____
    [AU 508.11*c* and 341.12]

Practice Tips

During the audit of an employee benefit plan, the auditor may become aware that the plan sponsor may not be able to continue as a going concern. Although the employee benefit plan's going concern assessment is not automatically affected by the plan sponsor's financial adversities, the auditor should address whether those difficulties pose any imminently potential impact on the plan.
[AAG 5.126]

In a going concern paragraph, the auditor should not use conditional language in expressing a conclusion concerning the existence of substantial doubt about the entity's ability to continue as a going concern. See AU section 311, *Planning and Supervision*, for an example.
[AU 341.13]

	Yes	No	N/A
12. **For auditors of public companies**, such as 11-K audits, prior to the report release date, among other matters, has the auditor obtained sufficient evidence to support the representations in the auditor's reports? [PCAOB AS 3 par. A53]	____	____	____
13. **For auditors of nonpublic companies**, is the report dated no earlier than the date on which the auditor has obtained sufficient competent audit evidence to support the opinion on the financial statements? [AU 530.01 and .05]	____	____	____
14. If there has been a material change between periods in accounting principles or in the method of their application that has a material effect on the comparability of the reporting entity's financial statements:			
a. Does the report include an explanatory paragraph, following the opinion paragraph, that refers to the change?	____	____	____
b. Does the explanatory paragraph identify the nature of the change and refer the reader to the note to the financial statements that discusses the change in detail? [AU 508.11*d* and .16]	____	____	____
c. If the change in the accounting principle is a change in reporting entity that did not result from a transaction or an event, is an explanatory paragraph included in the auditor's report? (***Note:*** A change in the reporting entity resulting from a transaction or event does not require that an explanatory paragraph about consistency be included in the auditor's report.) [AU 420.08]	____	____	____

Practice Tip

Changes in the format of presentation of accumulated benefit information or a change in the date as of which such information is presented does not require the auditor to add an explanatory paragraph to his or her report.
[AU 9420.64–.65; AAG 13.25]

	Yes	No	N/A
15. In an updated report, the opinion is different from the opinion previously expressed on the financial statements of a prior period:			
a. Does the report include an explanatory paragraph, preceding the opinion paragraph, that discloses all of the substantive reasons for the different opinion?	____	____	____
b. Does the explanatory paragraph disclose:			
(1) The date of the auditor's previous report?	____	____	____
(2) The type of opinion previously expressed?	____	____	____
(3) The circumstances or events that caused the auditor to express a different opinion?	____	____	____
(4) That the auditor's updated opinion on the financial statements of the prior period is different from his or her previous opinion on those statements? [AU 508.11*e* and .68–.69]	____	____	____

Yes No N/A

16. If financial statements of a prior period (presented for comparative purposes) have been audited by a predecessor auditor whose report is not presented:
    a. Does the introductory paragraph of the report indicate:
        (1) That the financial statements of the prior period were audited by another auditor? ___ ___ ___
        (2) The date of the predecessor auditor's report? ___ ___ ___
        (3) The type of report issued by the predecessor auditor? ___ ___ ___
        (4) If the report was other than a standard report, the substantive reasons therefor, including a description of the nature of and reasons for the explanatory paragraph added to the predecessor's report or his or her opinion qualification? ___ ___ ___
    b. If the financial statements have been restated, does the introductory paragraph indicate that the predecessor auditor reported on the financial statements of the prior period before restatement? ___ ___ ___
    [AU 508.11*e* and .72–.74]
17. Is an explanatory paragraph (or other explanatory language) added to the standard auditor's report if:
    a. The auditor wishes to clarify that an audit performed in accordance with generally accepted auditing standards does not require the same level of testing and reporting on internal control over financial reporting as an audit of an issuer when Section 404(b) of the Sarbanes-Oxley Act is applicable? (***Note:*** Not required—Auditing Interpretation No. 17, "Clarification in the Audit Report of the Extent of Testing of Internal Control Over Financial Reporting in Accordance With Generally Accepted Auditing Standards" of AU section 508, *Planning and Supervision*, provides an example report.) ___ ___ ___
    [AU 9508.85–.88]
    b. The audit is conducted in accordance with both GAAS and the PCAOB's auditing standards? ___ ___ ___
    [AU 9508.89–.92]
18. Is an explanatory paragraph (or other explanatory language) added to the standard auditor's report if the prior period's financial statements are audited by a predecessor auditor who has ceased operations? ___ ___ ___
    [AU 9508.60–.75]
19. If selected quarterly financial data required by SEC Regulation S-K has been omitted or has not been reviewed, does the report include an additional paragraph stating that fact? ___ ___ ___
    [AU 508.11*f* and 722.50]
20. If supplementary information required by GAAP has been omitted, the presentation of such information departs materially from prescribed guidelines, the auditor is unable to complete prescribed procedures with respect to such information, or the auditor is unable to remove substantial doubt about whether the supplementary information conforms to prescribed guidelines, does the report include an additional paragraph stating that fact? ___ ___ ___
    [AU 508.11*g* and 558.08]

	Yes	*No*	*N/A*
21. Is an explanatory paragraph (or other explanatory language) added to the standard auditor's report if there is a material change between periods in accounting principles or in the method of their application? [AU 508.16–.18]	____	____	____
22. If the audit also was conducted in accordance with International Standards on Auditing, in their entirety, does the auditor's report indicate that the audit was also conducted in accordance with another set of auditing standards? [AU 9508.56–.59]	____	____	____
23. If other information in a document containing audited financial statements is materially inconsistent with information appearing in the financial statements, has it been determined whether the financial statements, the auditor's report, or both require revision? [AU 508.11*h* and 550.04]	____	____	____
24. If certain other information has been subjected to auditing procedures applied in the audit of the basic financial statements, does the auditor express an opinion on whether the information is fairly stated in all material respects in relation to those financial statements taken as a whole in the auditor's report describing clearly the character of the auditor's work and the degree of responsibility the auditor is taking? [AU 550.07 and 558.09]	____	____	____
25. If the auditor decides to emphasize a matter regarding the financial statements in the report, is the explanatory information presented in a separate paragraph that avoids use of phrases such as "with the foregoing (following) explanation?" [AU 508.11 and .19; 9410.18; 9342.03]	____	____	____
26. If the decision has been made to terminate a plan:			
a. Is the auditor's report modified by the addition of an explanatory paragraph that states that the plan is being terminated and that the financial statements (including the benefit information disclosures presented) have been prepared on a liquidation basis? [AAG 13.41]	____	____	____
b. If the financial statements are presented along with the financial statements for a period prior to the adoption of the liquidation basis, does the explanatory paragraph state that the plan has changed the basis of accounting used to determine the amounts at which assets, liabilities, and benefit information are presented from the ongoing plan basis to a liquidation basis? [AAG 13.41; AU 9508.35]	____	____	____

Practice Tip

DOL Regulation Section CFR 2520 requires that the auditor separately identify any exceptions to his or her report that are the result of DOL regulations.

	Yes	No	N/A

Note: In March 2006, the AICPA's Auditing Standards Board (ASB) issued SAS Nos. 104–111 (risk assessment standards), which provide extensive guidance concerning the auditor's assessment of the risks of material misstatement in a financial statement audit, and the design and performance of audit procedures whose nature, timing, and extent are responsive to the assessed risks. Among other things, the SASs establish standards and provide guidance on evaluating whether the audit evidence obtained affords a reasonable basis for an opinion regarding the financial statements under audit. The SASs are effective for audits of financial statements for periods beginning on or after December 15, 2006; earlier application is permitted. The 2008 edition of the AAG has been updated to reflect the risk assessment standards. Chapter 5 of the AAG discusses how the risk assessment concepts may be applied in employee benefit plan audits. This checklist has been updated to reflect the risk assessment standards.

Departures From Unqualified Opinions

27. If it has not been possible to conduct the audit in accordance with GAAS or to apply all of the procedures considered necessary in the circumstances, has consideration been given to the need to issue a qualified opinion or to disclaim an opinion? ____ ____ ____
    [AU 508.22]
28. If a qualified opinion is to be expressed because of a scope limitation:
    a. Are all of the substantive reasons for the qualification disclosed in one or more explanatory paragraphs preceding the opinion paragraph? ____ ____ ____
    b. Does the qualified opinion include the word *except* or *exception* in a phrase such as *except for* or *with the exception of*? ____ ____ ____
    c. Is the situation described and referred to in both the scope and opinion paragraphs? ____ ____ ____
    d. Does the wording in the opinion paragraph indicate that the qualification pertains to the possible effects on the financial statements and not the scope limitation itself? ____ ____ ____
    [AU 508.22–.32 and 318.76]

Practice Tips

Scope limitations can be imposed by the client or by circumstances such as the timing of the auditor's work, the inability to obtain sufficient appropriate audit evidence, or an inadequacy in the accounting records. This question also includes situations in which the auditor is unable to obtain sufficient appropriate audit evidence to support management's assertions about the nature of a matter involving an uncertainty and its presentation or disclosure in the financial statements.
[AU 508.22 and .31]

It also includes situations in which the auditor's only evidence of the existence or valuation of (*a*) investments without readily determinable fair value, or (*b*) interests held in trust by a third-party trustee, is receiving confirmation from a third party for those assets.
[AU 9328.01 and 9332.01]

Notes: For further guidance see the AICPA practice aid *Alternative Investments—Audit Considerations (A practice aid for auditors)*. This practice aid addresses challenges associated with auditing investments for which a readily determinable fair value does not exist (that is, that are not listed on national exchanges or over-the-counter

Yes No N/A

markets, or for which quoted market prices are not available from sources such as financial publications, the exchanges, or the National Association of Securities Dealers Automated Quotations System [NASDAQ]). Alternative investments can present challenges with respect to obtaining sufficient appropriate audit evidence in support of the existence and valuation assertions, because of the lack of a readily determinable fair value for these investments and the limited investment information generally provided by fund managers.

If a plan auditor concludes that information about the nature of the services provided by a service organization that are part of the plan's information system, and the service organization's controls over those services, is not available to obtain a sufficient understanding of internal control to plan the audit, it would be considered a scope limitation.
[AU 324.10]

Consult the topical index to the AICPA *Professional Standards* under "Scope of Audit Limitations" for additional references to specific types of scope limitations that could result in either a qualified or disclaimer of opinion.

29. Is a qualified opinion or disclaimer of opinion expressed if the auditor's understanding of internal control raises doubts about the auditability of an entity's financial statements, such as:
    a. Concerns about the integrity of an entity's management cause the auditor to conclude that the risk of management misrepresentation in the financial statements is such that an audit cannot be conducted? ____ ____ ____
    b. Concerns about the condition and reliability of an entity's records cause the auditor to conclude that it is unlikely that sufficient appropriate audit evidence will be available to support an unqualified opinion on the financial statements? ____ ____ ____
    [AU 314.109]
30. If an opinion is disclaimed because of a scope limitation:
    a. Are all of the substantive reasons for the disclaimer stated in a separate paragraph or paragraphs? ____ ____ ____
    b. Does the report state that the scope of the audit was not sufficient to warrant the expression of an opinion? ____ ____ ____
    c. Does the report avoid identifying procedures that were performed? ____ ____ ____
    d. Is the scope paragraph omitted? ____ ____ ____
    e. If there are reservations about fair presentation of the financial statements in conformity with GAAP, are they described in the report? ____ ____ ____
    [AU 508.63]
31. If the financial statements are materially affected by a departure from GAAP (including inadequate disclosure, inappropriate accounting principles, and unreasonable accounting estimates), has consideration been given to the need to issue a qualified opinion or an adverse opinion?[1] ____ ____ ____
    [AU 508.35]
32. If a qualified opinion is to be expressed because of a GAAP departure:

[1] The auditor should express a qualified or an adverse opinion if the auditor concludes that (*a*) a matter involving a risk or an uncertainty is not adequately disclosed, (*b*) the accounting principles used cause the financial statements to be materially misstated when the inability to make a reasonable estimate raises questions about the appropriateness of the accounting principles used, and (*c*) management's estimate is unreasonable and that its effect is to cause the financial statements to be materially misstated. [AU 508.46–.49]

	Yes	No	N/A
a. Are all of the substantive reasons that have led to the conclusion that there is a departure from GAAP disclosed in one or more separate explanatory paragraphs preceding the opinion paragraph?	____	____	____
b. Does the qualified opinion include the word *except* or *exception* in a phrase such as *except for* or *with the exception of* and a reference to the explanatory paragraph?	____	____	____
c. Does the explanatory paragraph disclose the principle effects of the departure on financial position, results of operations, and cash flows, if practicable, or state that the effects are not reasonably determinable, if not practicable to do so? [AU 508.37–.38]	____	____	____
33. If an adverse opinion is to be expressed because of a GAAP departure:			
a. Are all of the substantive reasons for the adverse opinion disclosed in one or more separate explanatory paragraphs preceding the opinion paragraph?	____	____	____
b. Does the explanatory paragraph disclose the principle effects of the departure on financial position, results of operations, and cash flows, if practicable, or state that the effects are not reasonably determinable, if not practicable to do so?	____	____	____
c. State that the financial statements do not present fairly the net assets available for benefits or changes in net assets in conformity with GAAP? [AU 508.58–.59]	____	____	____
34. If a limited scope audit is performed pursuant to DOL Regulations 29 CFR Section 2520.103-8, is a disclaimer of opinion expressed? [AAG 13.26–.30]	____	____	____

Practice Tip

Consult the topical index to the AICPA *Professional Standards* under "Departures From Established Principles," "Adverse Opinions," and "Qualified Opinions" for additional references to specific types of GAAP departures that could result in either a qualified or adverse opinion.

	Yes	No	N/A
35. If information accompanies the basic financial statements and auditor's report in an auditor-submitted document, is it accompanied by a report that:			
a. States that the audit is performed for the purpose of forming an opinion on the basic financial statements taken as a whole?	____	____	____
b. Specifically identify the accompanying information?	____	____	____
c. States that the accompanying information is presented for purposes of additional analysis and is not a required part of the basic financial statements?	____	____	____

	Yes	No	N/A
d. Includes either an opinion on whether the accompanying information is fairly stated in all material respects in relation to the basic financial statements taken as a whole or a disclaimer of opinion (depending on whether the information was subjected to the auditing procedures applied in the audit of the basic financial statements)? [AU 551.06]	____	____	____
e. State that the supplemental schedules are the responsibility of the plan's management? (***Recommended but not a required disclosure.***) [AAG 13.10]	____	____	____

Practice Tip

Question 35 does not apply to limited-scope audits pursuant to DOL Regulations 29 CFR Section 2520.103-8. In these situations, see question 31 and AAG 13.26.

Note: In May 2006, AICPA's ASB issued SAS No. 112, *Communicating Internal Control Related Matters Identified in an Audit* (AU section 325). The statement supersedes SAS 60 of the same name and is effective for audits of financial statements for periods ending on or after December 15, 2006.

	Yes	No	N/A
36. Is the reporting form, content, and timing of SAS No. 112, paragraphs 20–30, followed when communicating matters related to an organization's internal control over financial reporting identified in an audit of financial statements?[2] [AU 325.20–.30]	____	____	____

Practice Tip

See appendix B of the AICPA Audit Risk Alert *Employee Benefit Plans Industry Developments—2007* (product no. 022418) for guidance on evaluating control deficiencies in an employee benefit plan audit (applying SAS No. 112).

	Yes	No	N/A
37. Auditor's report requirements under DOL regulations:			
a. Is the auditor's report dated and manually signed?	____	____	____
b. Does it indicate the city and state where issued?	____	____	____
c. Does it identify the statements and schedules covered? [AAG A.50*a* fn 16]	____	____	____
d. Does it disclose any omitted auditing procedures deemed necessary by the accountant and the reasons for their omission?	____	____	____
e. State clearly the auditor's opinion of the financial statements and schedules covered by the report and the accounting principles and practices reflected therein?	____	____	____

[2] Auditors are required to communicate control deficiencies identified during an audit that are significant deficiencies or material weaknesses as defined by SAS 112, *Communicating Internal Control Related Matters Identified in an Audit* (AU section 325), including significant deficiencies or material weaknesses that were communicated in previous audits and have not yet been remediated. Those control deficiencies must be communicated in writing to management and those charged with governance.

	Yes	No	N/A
f. State clearly the consistency of the application of the accounting principles between the current year and the preceding year or as to any changes in such principles which have a material effect on the financial statements? [AAG A.50*a*; DOL Regulations sec. 29 CFR 2520]	____	____	____
g. State clearly any matters to which the auditor takes exception, the exception, and to the extent practical, the effect of such matters on the related financial statements? [29 CFR 2520.103-1(iv)]	____	____	____
(1) Are the exceptions, if any, further identified as *(a)* those that are the result of DOL regulations, and *(b)* all others? [AAG A.50*a*; DOL Regulations sec. 29 CFR 2520]	____	____	____

Practice Tip

AU section 532, *Restricting the Use of an Auditor's Report*, provides guidance to auditors in determining whether an engagement requires a restricted-use report and, if so, what elements to include in that report.

FSP Section 7400
Illustrative Financial Statements and Auditor's Reports

.01 This section contains illustrations of the following auditor's reports:

- Defined benefit plan assuming end-of-year benefit information date
- Defined benefit plan assuming beginning-of-year benefit information date
- Defined benefit plan—limited-scope audit

.02 This section also illustrates certain applications of the provisions of chapter 2 of the Audit and Accounting Guide *Employee Benefit Plans* (the guide), and Statement of Position (SOP) 99-2, *Accounting and Reporting of Postretirement Medical Benefit (401(h)) Features of Defined Benefit Pension Plans,* (AICPA, *Technical Practice Aids,* ACC sec. 10,780), that apply for the annual financial statements of the hypothetical pension plan, *C&H Company Pension Plan.* It does not illustrate other provisions of chapter 2 of the guide that might apply in circumstances other than those assumed in this example. The format presented and the wording of accompanying notes are only illustrative and are not necessarily the only possible presentations. The illustrative financial statements have not been revised to reflect the provisions of Financial Accounting Standards Board (FASB) Statements of Financial Accounting Standards (SFAS) 133, *Accounting for Derivative Instruments and Hedging Activities,* as amended.

.03 For illustrations of alternative presentations of the financial statements presented here and for an illustration of financial statements when a beginning-of-year benefit information date is selected, see appendix D of the guide, exhibits D-5–D-8.

.04 Although generally accepted accounting principles (GAAP) do not require comparative financial statements, Employee Retirement Income Security Act of 1974 (ERISA) requires a comparative statement of net assets available for benefits. The illustrative financial statements are intended to comply with the ERISA requirements for comparative statements.

.05 ERISA and U.S. Department of Labor (DOL) regulations require that certain information be included in supplemental schedules, which are not required under GAAP, and reported on by the independent auditor.

.06 The illustrative financial statements in this section have not been amended to conform to SFAS 157, *Fair Value Measurements.* These financial statements will be amended closer to its effective date.

Illustration of Auditors' Report on Financial Statements of a Defined Benefit Plan Assuming End-of-Year Benefit Information Date

<u>Independent Auditors' Report</u>

[Addressee]

We have audited the accompanying statements of net assets available for benefits and of accumulated plan benefits of XYZ Pension Plan as of December 31, 20X2 and 20X1, and the related statements of changes in net assets available for benefits and of changes in accumulated plan benefits for the year ended December 31, 20X2. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. [*Optional: An audit includes consideration of* *internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.*][1] An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial status of the Plan as of December 31, 20X2 and 20X1, and the changes in its financial status for the year ended December 31, 20X2, in conformity with accounting principles generally accepted in the United States of America.

Our audits were performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental schedules of [*identify title of schedules and period covered*] are presented for the purpose of additional analysis and are not a required part of the basic financial statements but are supplementary information required by the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974. These supplemental schedules are the responsibility of the Plan's management. The supplemental schedules have been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.[2]

[*Signature of Firm*]

[*City and State*]

[*Date*][3]

[AAG 13.04 and 13.10–.11]

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[1] This optional language may be added to the auditor's standard report to clarify that an audit performed in accordance with GAAS does not require the same level of testing and reporting on internal control over financial reporting as an audit of an issuer when Section 404(b) of the Act is applicable. If this optional language is added then the remainder of the paragraph should read as follows:

> "An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion."
>
> See Auditing Interpretation 17 of SAS 58 (AU 9508.85–.88) issued in June 2004.

[2] This paragraph on the supplemental schedules required by ERISA and DOL regulations may also be shown separately in the auditor-submitted document.

[3] The auditor's report should not be dated earlier than the date on which the auditor has obtained sufficient appropriate audit evidence to support the opinion (AICPA, *Professional Standards*, vol. 1, AU sec. 530 par. .01).

.07

Illustration of Auditors' Report on Financial Statements of a Defined Benefit Plan Assuming Beginning-of-Year Benefit Information Date

Independent Auditors' Report

[Addressee]

We have audited the accompanying statements of net assets available for benefits of XYZ Pension Plan as of December 31, 20X2 and 20X1, and the related statements of changes in net assets available for benefits for the years then ended and the statement of accumulated plan benefits as of December 31, 20X1, and the related statement of changes in accumulated plan benefits for the year then ended. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. [*Optional: An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.*][4] An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, information regarding the Plan's net assets available for benefits as of December 31, 20X2, and changes therein for the year then ended and its financial status as of December 31, 20X1, and changes therein for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Our audits were performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental schedules of [*identify title of schedules and period covered*] are presented for the purpose of additional analysis and are not a required part of the basic financial statements but are supplementary information required by the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974. These supplemental schedules are the responsibility of the Plan's management. The supplemental schedules have been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.[5]

[*Signature of Firm*]

[*City and State*]

[*Date*]

[AAG 13.05 and 13.10–.11]

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[4] This optional language may be added to the auditor's standard report to clarify that an audit performed in accordance with GAAS does not require the same level of testing and reporting on internal control over financial reporting as an audit of an issuer when Section 404(b) of the Act is applicable. If this optional language is added then the remainder of the paragraph should read as follows:

> "An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion."
>
> See Auditing Interpretation 17 of SAS 58 (AU 9508.85–.88) issued in June 2004.

[5] This paragraph on the supplemental schedules required by ERISA and DOL regulations may also be shown separately in the auditor-submitted document.

.08

Illustration of Auditors' Report on Financial Statements—Limited-Scope Audits Under DOL Regulations

Independent Auditors' Report

[Addressee]

We were engaged to audit the financial statements and supplemental schedules of XYZ Pension Plan as of December 31, 20X1 and 20X0, and for the year ended December 31, 20X1, as listed in the accompanying index. These financial statements and supplemental schedules are the responsibility of the Plan's management.

As permitted by 29 CFR 2520.103-8 of the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974, the plan administrator instructed us not to perform, and we did not perform, any auditing procedures with respect to the information summarized in Note X, which was certified by ABC Bank, the trustee (or custodian) of the Plan, except for comparing such information with the related information included in the financial statements and supplemental schedules. We have been informed by the plan administrator that the trustee (or custodian) holds the Plan's investment assets and executes investment transactions. The plan administrator has obtained a certification from the trustee (or custodian) as of December 31, 20X1 and 20X0 and for the year ended December 31, 20X1, that the information provided to the plan administrator by the trustee (or custodian) is complete and accurate.

Because of the significance of the information that we did not audit, we are unable to, and do not express an opinion on the accompanying financial statements and supplemental schedules taken as a whole. The form and content of the information included in the financial statements and supplemental schedules, other than that derived from the information certified by the trustee (or custodian) have been audited by us in accordance with auditing standards generally accepted in the United States of America and, in our opinion, are presented in compliance with the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974.

[*Signature of Firm*]

[*City and State*]

[*Date*]

[AAG 13.26]

.09 ***Change in Trustee.*** The following illustrates an auditor's report reflecting a change in trustee for a pension plan.

Report of Independent Certified Public Accountants

To the XYZ Pension Plan
and Participants:

We were engaged to audit the accompanying statements of net assets available for benefits and of accumulated plan benefits of XYZ Pension Plan as of December 31, 20X2 and 20X1, and the related statements of changes in net assets available for benefits and of changes in accumulated plan benefits for the year ended December 31, 20X2, and the supplemental schedules of (1) Schedule H, line 4i—Schedule of Assets (Held at End of Year) as of December 31, 20X2, and (2) Schedule H, line 4j—Schedule of Reportable Transactions for the year ended December 31, 20X2. These financial statements and schedules are the responsibility of the Plan's management.

As permitted by 29 CFR 2520.103-8 of the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974, the plan administrator instructed us not to perform, and we did not perform, any auditing procedures with respect to the investment information summarized in Note X, which was certified by the ABC Bank and XYZ Trust Company, the trustees of the Plan, except for comparing such information with the related information included in the financial statements and supplemental schedules. We have been informed by the plan administrator that XYZ Trust Company held the Plan's investment assets and executed investment transactions from July 1, 20X2 to December 31, 20X2, and that ABC Bank held the Plan's investment assets and executed investment transactions as of December 31, 20X1 and for the period January 1, 20X1 to June 30, 20X2. The plan administrator has obtained certifications from the trustees as of and for the years ended December 31, 20X2 and 20X1, that the information provided to the plan administrator by the trustees is complete and accurate.

Because of the significance of the information that we did not audit, we are unable to, and do not, express an opinion on the accompanying financial statements and supplemental schedules taken as a whole. The form and content of the information included in the financial statements and supplemental schedules, other than that derived from the investment information certified by the trustees, have been audited by us in accordance with auditing standards generally accepted in the United States and, in our opinion, are presented in compliance with the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974.

[*Signature of Firm*]

[*City and State*]

[*Date*][6]

[AAG 13.31]

[6] The auditor's report should not be dated earlier than the date on which the auditor has obtained sufficient appropriate audit evidence to support the opinion (AICPA, *Professional Standards*, vol. 1, AU 530.01).

The checklists and illustrative financial statements do not include all disclosures and presentation items promulgated.

.10

C&H COMPANY PENSION PLAN

Statements of Net Assets Available for Benefits

[End-of-year benefit information date]

	December 31,	
	20X1	*20X0*
Assets		
Investments, at fair value (notes B, E, F, and G):		
Plan interest in C&H master trust	$2,250,000	$1,860,000
C&H Company common stock	690,000	880,000
Investment contract with insurance company	1,000,000	890,000
Corporate bonds and debentures	3,500,000	3,670,000
U.S. government securities	350,000	270,000
Mortgages	480,000	460,000
Real estate	270,000	240,000
Total investments	8,540,000	8,270,000
Receivables:		
Employer's contribution	40,000	35,000
Securities sold	310,000	175,000
Accrued interest and dividends	77,000	76,000
Total receivables	427,000	286,000
Cash	200,000	90,000
Total assets	9,167,000	8,646,000
Liabilities		
Due to broker for securities purchased	—	400,000
Accounts payable	70,000	60,000
Accrued expenses	85,000	40,000
Total liabilities	155,000	500,000
Net assets available for benefits	$9,012,000	$8,146,000

The accompanying notes are an integral part of the financial statements.

.11

C&H COMPANY PENSION PLAN

Statement of Changes in Net Assets Available for Benefits

[End-of-year benefit information date]

	Year Ended December 31, 20X1
Investment income	
Net appreciation in fair value of investments (note E)	$ 278,000
Interest	325,000
Dividends	5,000
	608,000
Less investment expenses	39,000
	569,000
Plan interest in C&H master trust investment income (note F)	129,000
	698,000
Contributions (note C)	
Employer	780,000
Employees	450,000
	1,230,000
Total additions	1,928,000
Benefits paid directly to participants	740,000
Purchases of annuity contracts (note G)	257,000
	997,000
Administrative expenses	65,000
Total deductions	1,062,000
Net increase	866,000
Net assets available for benefits	
Beginning of year	8,146,000
End of year	$9,012,000

The accompanying notes are an integral part of the financial statements.

Note: Pursuant to SFAS 102, a statement of cash flows is not required for defined benefit pension plans covered by SFAS 35. However, plans are encouraged to include a statement of cash flows with their annual financial statements when that statement would provide relevant information about the ability of the plan to meet future obligations (for example, when the plan invests in assets that are not highly liquid). [SFAS 102 par. 5]

.12

C&H COMPANY PENSION PLAN

Statements of Accumulated Plan Benefits

[End-of-year benefit information date]

	December 31,	
	20X1	*20X0*
Actuarial present value of accumulated plan benefits (notes B–C)		
Vested benefits:		
Participants currently receiving payments	$3,040,000	$2,950,000
Other participants	8,120,000	6,530,000
	11,160,000	9,480,000
Nonvested benefits	2,720,000	2,400,000
Total actuarial present value of accumulated plan benefits	$13,880,000	$11,880,000

The accompanying notes are an integral part of the financial statements.

.13

C&H COMPANY PENSION PLAN

Statement of Changes in Accumulated Plan Benefits

[End-of-Year benefit information date]

	Year Ended December 31, 20X1
Actuarial present value of accumulated plan benefits at beginning of year	$11,880,000
Increase (decrease) during the year attributable to:	
Plan amendment (note H)	2,410,000
Change in actuarial assumptions (note B)	(1,050,500)
Benefits accumulated	895,000
Increase for interest due to the decrease in the discount period (note B)	742,500
Benefits paid	(997,000)
Net increase	2,000,000
Actuarial present value of accumulated plan benefits at end of year	$13,880,000

The accompanying notes are an integral part of the financial statements.

.14

C&H COMPANY PENSION PLAN

Notes to Financial Statements

A. Description of Plan

The following brief description of the C&H Company Pension Plan (*plan*) is provided for general information purposes only. Participants should refer to the plan agreement for more complete information.

1. *General.* The plan is a defined benefit pension plan covering substantially all employees of C&H Company (*Company*). It is subject to the provisions of ERISA (*ERISA*).

2. *Pension Benefits.* Employees with 5 or more years of service are entitled to annual pension benefits beginning at normal retirement age (65) equal to 1.5 percent of their final five-year average annual compensation for each year of service. The Plan permits early retirement at ages 55–64. Employees may elect to receive their pension benefits in the form of a joint and survivor annuity. If employees terminate before rendering five years of service, they forfeit the right to receive the portion of their accumulated plan benefits attributable to the company's contributions. Employees may elect to receive the value of their accumulated plan benefits as a lump-sum distribution upon retirement or termination, or they may elect to receive their benefits as a life annuity payable monthly from retirement. For each employee electing a life annuity, payments will not be less than the greater of (a) the employee's accumulated contributions plus interest or (b) an annuity for five years.

3. *Death and Disability Benefits.* If an active employee dies at age 55 or older, a death benefit equal to the value of the employee's accumulated pension benefits is paid to the employee's beneficiary. Active employees who become totally disabled receive annual disability benefits that are equal to the normal retirement benefits they have accumulated as of the time they become disabled. Disability benefits are paid until normal retirement age at which time disabled participants begin receiving normal retirement benefits computed as though they had been employed to normal retirement age with their annual compensation remaining the same as at the time they became disabled.

B. Summary of Accounting Policies

The following are the significant accounting policies followed by the plan:

1. *Basis of Accounting.* The accompanying financial statements are prepared on the accrual basis of accounting.

2. *Use of Estimates.* The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, and changes therein, disclosure of contingent assets and liabilities, and the actuarial present value of accumulated plan benefits at the date of the financial statements. Actual results could differ from those estimates.

3. *Investment Valuation and Income Recognition.* If available, quoted market prices are used to value investments.

   The amounts shown in note E for securities that have no quoted market price represent estimated fair value. Many factors are considered in arriving at that fair market value. In general, however, corporate bonds are valued based on yields currently available on comparable securities of issuers with similar credit ratings. Investments in certain restricted common stocks are valued at the quoted market price of the issuer's unrestricted common stock less an appropriate discount. If a quoted market price for unrestricted common stock of the issuer is not available, restricted common stocks are valued at a multiple of current earnings less an appropriate discount. The multiple chosen is consistent with multiples of similar companies based on current market prices.

Mortgages have been valued on the basis of their future principal and interest payments discounted at prevailing interest rates for similar investments. The fair value of real estate investments, principally rental property subject to long-term leases, has been estimated on the basis of future rental receipts and estimated residual values discounted at interest rates commensurate with the risks involved. The fair value of the plan's interest in the C&H Master Trust (master trust) is based on the beginning of year value of the plan's interest in the trust plus actual contributions and allocated investment income, less actual distributions and allocated administrative expenses (note F). Quoted market prices are used to value investments in the master trust.

The plan's investment contract with the National Insurance Company (National) (note G) is valued at fair value by discounting the related cash flows based on current yields of similar instruments with comparable durations. Funds under the investment contract that have been allocated and applied to purchase annuities (that is, National is obligated to pay the related pension benefits) are excluded from the plan's assets.

Purchases and sales of securities are recorded on a trade-date basis. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date.

4. *Actuarial Present Value of Accumulated Plan Benefits.* Accumulated plan benefits are those future periodic payments, including lump-sum distributions, that are attributable under the plan's provisions to the service employees have rendered. Accumulated plan benefits include benefits expected to be paid to (*a*) retired or terminated employees or their beneficiaries, (*b*) beneficiaries of employees who have died, and (*c*) present employees or their beneficiaries. Benefits under the plan are based on employees' compensation during their last five years of credited service.

   The accumulated plan benefits for active employees are based on their average compensation during the five years ending on the date as of which the benefit information is presented (the *valuation date*). Benefits payable under all circumstances—retirement, death, disability, and termination of employment—are included, to the extent they are deemed attributable to employee service rendered to the valuation date. Benefits to be provided via annuity contracts excluded from plan assets are excluded from accumulated plan benefits.

   The actuarial present value of accumulated plan benefits is determined by an actuary from the AAA Company and is that amount that results from applying actuarial assumptions to adjust the accumulated plan benefits to reflect the time value of money (through discounts for interest) and the probability of payment (by means of decrements such as for death, disability, withdrawal, or retirement) between the valuation date and the expected date of payment. The significant actuarial assumptions used in the valuations as of December 31, 20X1 and 20X0 were (*a*) life expectancy of participants (the 20X1 Group Annuity Mortality table was used), (*b*) retirement age assumptions (the assumed average retirement age was 60), and (*c*) investment return. The 20X1 and 20X0 valuations included assumed average rates of return of 7 percent and 6.25 percent, respectively, including a reduction of .2 percent to reflect anticipated administrative expenses associated with providing benefits. The foregoing actuarial assumptions are based on the presumption that the plan will continue. Were the plan to terminate, different actuarial assumptions and other factors might be applicable in determining the actuarial present value of accumulated plan benefits.

5. *Payment of Benefits.* Benefit payments to participants are recorded upon distribution.

C. Funding Policy

As a condition of participation, employees are required to contribute 3 percent of their salary to the plan. Present employees' accumulated contributions at December 31, 20X1 and 20X0 were $2,575,000 and $2,325,000, respectively, including interest credited at an interest rate of 5 percent compounded annually. The company's funding policy is to make annual contributions to the plan in amounts that are estimated to remain a constant percentage of employees' compensation each year (approximately 5 percent for 20X1), such that, when combined with employees' contributions, all employees' benefits will be fully provided for by the time they retire. Beginning in 20X2, the company's contribution is expected to increase to approximately 6 percent to provide for the increase in benefits attributable to the plan amendment effective July 1, 20X1 (note H). The company's contributions for 20X1 exceeded the minimum funding requirements of ERISA.

Although it has not expressed any intention to do so, the company has the right under the plan to discontinue its contributions at any time and to terminate the plan subject to the provisions set forth in ERISA.

D. Plan Termination

In the event the plan terminates, the net assets of the plan will be allocated, as prescribed by ERISA and its related regulations, generally to provide the following benefits in the order indicated:

a. Benefits attributable to employee contributions, taking into account those paid out before termination.

b. Annuity benefits that former employees or their beneficiaries have been receiving for at least three years, or that employees eligible to retire for that three-year period would have been receiving if they had retired with benefits in the normal form of annuity under the plan. The priority amount is limited to the lowest benefit that was payable (or would have been payable) during those three years. The amount is further limited to the lowest benefit that would be payable under plan provisions in effect at any time during the five years preceding plan termination.

c. Other vested benefits insured by the Pension Benefit Guaranty Corporation (PBGC) up to the applicable limitations (discussed subsequently).

d. All other vested benefits (that is, vested benefits not insured by the PBGC).

e. All nonvested benefits.

Benefits to be provided via contracts under which National (note G) is obligated to pay the benefits would be excluded for allocation purposes.

Certain benefits under the plan are insured by the PBGC if the plan terminates. Generally, the PBGC guarantees most vested normal age retirement benefits, early retirement benefits, and certain disability and survivor's pensions. However, the PBGC does not guarantee all types of benefits under the plan, and the amount of benefit protection is subject to certain limitations. Vested benefits under the plan are guaranteed at the level in effect on the date of the plan's termination. However, there is a statutory ceiling, which is adjusted periodically, on the amount of an individual's monthly benefit that the PBGC guarantees. For plan terminations occurring during 20X2, that ceiling is $X,XXX per month. That ceiling applies to those pensioners who elect to receive their benefits in the form of a single-life annuity and are at least 65 years old at the time of retirement or plan termination (whichever comes later). For younger annuitants or for those who elect to receive their benefits in some form more valuable than a single-life annuity, the corresponding ceilings are actuarially adjusted downward. Benefit improvements attributable to the plan amendment effective July 1, 20X1 (note H) may not be fully guaranteed even though total benefit entitlements fall below the aforementioned ceilings. For example, none of the improvement would be guaranteed if the plan were to terminate before July 1, 20X2. After that date, the PBGC would guarantee 20 percent of any benefit improvements that resulted in benefits below the ceiling, with an additional 20 percent guaranteed each year the Plan continued beyond July 1, 20X2. If the amount of the benefit increase below the ceiling is also less than $100, $20 of the increase (rather than 20 percent) becomes guaranteed by the PBGC each year following the effective date of the amendment. As a result, only the primary ceiling would be applicable after July 1, 20X6.

Whether all participants receive their benefits should the plan terminate at some future time will depend on the sufficiency, at that time, of the plan's net assets to provide for accumulated benefit obligations, and may also depend on the financial condition of the plan sponsor and the level of benefits guaranteed by the PBGC.

E. Investments*

The following table presents the fair value of investments. Investments that represent 5 percent or more of the plan's net assets are separately identified.

	December 31, 20X1	December 31, 20X0
Investments at Fair Value as Determined by Quoted Market Price		
C&H company common stock, 25,000 shares	$ 690,000	$ 880,000
U.S. government securities	350,000	270,000
Corporate bonds and debentures	3,000,000	3,670,000
	4,040,000	4,820,000
Investments at Estimated Fair Value		
Plan interest in C&H master trust	2,250,000	1,860,000
Investment contract with National Insurance Company #8041A, 8.0% (note G)	1,000,000	890,000
Corporate bonds and debentures	500,000	—
Mortgages	480,000	460,000
Real estate	270,000	240,000
	4,500,000	3,450,000
	$8,540,000	$8,270,000

During 20X1, the plan's investments (including gains and losses on investments bought and sold, as well as held during the year) appreciated in value by $278,000 as follows:

Net Appreciation (Depreciation) in Fair Value

	Year Ended December 31, 20X1
Investments at Fair Value as Determined by Quoted Market Price	
C&H Company common stock	$ 208,000
U.S. government securities	20,000
Corporate bonds	10,000
	238,000
Investments at Estimated Fair Value	
Investment contract with insurance company	40,000
Corporate bonds and debentures	(50,000)
Mortgages	100,000
Real estate	(50,000)
	40,000
	$278,000

* Financial Accounting Standards Board (FASB) Statement of Financial Accounting Standards (SFAS) 157, *Fair Value Measurement*, defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. SFAS 157 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This checklist will be updated to reflect SFAS 157 closer to its effective date. SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. See the statement for transitional guidance. The disclosure requirements shall apply in the first interim period of the fiscal year in which this statement is initially applied.

F. Interest in C&H Master Trust

A portion of the plan's investments are in the master trust which was established for the investment of assets of the plan and several other C&H Company sponsored retirement plans. Each participating retirement plan has an undivided interest in the master trust. The assets of the master trust are held by GLC Trust Company (trustee). At December 31, 20X1 and 20X0, the plan's interest in the net assets of the master trust was approximately 9 percent and 11 percent, respectively. Investment income and administrative expenses relating to the master trust are allocated to the individual plans based upon average monthly balances invested by each plan.

The following table presents the fair values of investments for the master trust.

	December 31,	
	20X1	*20X0*
Investments at fair value:		
Common stocks	$ 11,900,000	$ 8,800,000
Corporate bonds	11,800,000	6,700,000
U.S. government securities	867,000	750,000
	$ 24,567,000	$16,250,000

Investment income for the master trust is as follows:

	Year Ended December 31,
	20X1
Investment income:	
Net appreciation in fair value of investments:	
Common stocks	$ 300,000
Corporate bonds	200,000
U.S. government securities	300,000
	800,000
Interest	400,000
Dividends	230,000
	$ 1,430,000

G. Contract With Insurance Company

In 19W8, the company entered into an investment contract with the National Insurance Company under which the plan deposits a minimum of $100,000 a year. National maintains the contributions in an unallocated fund to which it adds interest at a rate of 8 percent. The interest rate is guaranteed through 20X3 but is subject to change for each succeeding five-year period. When changed, the new rate applies only to funds deposited from the date of change. At the direction of the plan's administrator, a single premium to buy an annuity for a retiring employee is withdrawn by National from the unallocated fund. Purchased annuities are contracts under which National is obligated to pay benefits to named employees or their beneficiaries. The premium rates for such annuities to be purchased in the future and maximum administration expense charges against the fund are also guaranteed by National on a five-year basis.

The annuity contracts provide for periodic dividends at National's discretion on the basis of its experience under the contracts. Such dividends received by the plan for the year ended December 31, 20X1 were $25,000. In reporting changes in net assets, those dividends have been netted against amounts paid to National for the purchase of annuity contracts.

H. Plan Amendment

Effective July 1, 20X1, the plan was amended to increase future annual pension benefits from 1¼ percent to 1½ percent of final five-year average annual compensation for each year of service, including service rendered before the effective date. The retroactive effect of the plan amendment, an increase in the actuarial present value of accumulated plan benefits of $2,410,000, was accounted for in the year ended December 31, 20X1. The actuarial present value of accumulated plan benefits at December 31, 20X0 does not reflect the effect of that plan amendment. The plan's actuary estimates that the amendment's retroactive effect on the actuarial present value of accumulated plan benefits at December 31, 20X0 was an increase of approximately $1,750,000, of which approximately $1,300,000 represents an increase in vested benefits.

I. Tax Status

The Internal Revenue Service has determined, and informed the company by a letter dated June 30, 20XX, that the plan and related trust are designed in accordance with the applicable sections of the Internal Revenue Code (IRC). The plan has been amended since receiving the determination letter. However, the plan administrator and the plan's tax counsel believe that the plan is designed and is currently being operated in compliance with the applicable requirements of the IRC.

J. Risks and Uncertainties

The plan invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the statement of net assets available for benefits.

Plan contributions are made and the actuarial present value of accumulated plan benefits are reported based on certain assumptions pertaining to interest rates, inflation rates, and employee demographics, all of which are subject to change. Due to uncertainties inherent in the estimations and assumptions process, it is at least reasonably possible that changes in these estimates and assumptions in the near term would be material to the financial statements.

> *Note*: Paragraphs .15–.17 illustrate certain applications of the provision of SOP 99-2 that apply for the annual financial statements of a hypothetical defined benefit pension plan that has been amended to include a 401(h) account.

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C&H COMPANY PENSION PLAN

Statement of Net Assets Available for Pension Benefits

	December 31,	
	20X1	*20X0*
Assets		
Investments, at fair value (note A):		
Plan interest in C&H master trust	$ 2,000,000	$ 1,660,000
C&H Company common stock	600,000	800,000
Investment contract with insurance company	850,000	800,000
Corporate bonds and debentures	3,000,000	3,170,000
U.S. government securities	300,000	200,000
Mortgages	480,000	460,000
Money market fund	270,000	240,000
Total investments	7,500,000	7,330,000

Net assets held in 401(h) account (note H)[7]	1,072,000	966,000
Receivables:		
Employer's contribution	20,000	10,000
Securities sold	310,000	175,000
Accrued interest and dividends	70,000	70,000
Total receivables	400,000	255,000
Cash	180,000	80,000
Total **assets**	9,152,000	8,631,000
Liabilities		
Due to broker for securities purchased	—	400,000
Accounts payable	70,000	60,000
Accrued expenses	70,000	25,000
Amounts related to obligation of 401(h) account	1,072,000	966,000
Total **liabilities**	1,212,000	1,451,000
Net assets available for pension benefits	$ 7,940,000	$ 7,180,000

The accompanying notes are an integral part of the financial statements.

[7] Any assets held for investment purposes in the 401(h) account should be shown on Schedule H, line 4i—Schedule of Assets (Held at End of Year), and Schedule H, line 4j—Schedule of Reportable Transactions, for the pension plan.

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C&H COMPANY PENSION PLAN

Statement of Changes in Net Assets Available for Pension Benefits

	For the Year Ended December 31, 20X1
Investment income:	
Net appreciation in fair value of investments	$ 233,000
Interest	293,000
Dividends	4,000
	530,000
Less investment expenses	30,000
	500,000
Plan interest in C&H master trust investment income (note F)	117,000
	617,000
Contributions (note C):	
Employer	740,000
Employees	450,000
Total **additions**	1,190,000
	1,807,000
Benefits paid directly to participants	740,000
Purchases of annuity contracts (note G)	257,000
	997,000
Administrative expenses	50,000
Total **deductions**	1,047,000
Net **increase**	760,000
Net assets available for pension benefits:	
Beginning of year	7,180,000
End of year	$ 7,940,000

The accompanying notes are an integral part of the financial statements.

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Notes to Financial Statements

A. 401 (h) Account

Effective January 1, 20X0, the plan was amended to include a medical-benefit component in addition to the normal retirement benefits to fund a portion of the postretirement obligations for retirees and their beneficiaries in accordance with **[Section]** 401(h) of the IRC. A separate account has been established and maintained in the Plan for the net assets related to the **[medical-benefit]** component (401(h) account). In accordance with IRC **[Section]** 401(h), the plan's investments in the 401(h) account may not be used for, or diverted to, any purpose other than providing health benefits for retirees and their beneficiaries. Any assets transferred to the 401(h) account from the defined benefit pension plan in a qualified transfer of excess pension plan assets (and any income allocable thereto) that are not used during the plan year must be transferred out of the account to the pension plan. The related obligations for health benefits are not included in this plan's obligations in the statement of accumulated plan benefits but are reflected as obligations in the financial statements of the health and welfare benefit plan. Plan participants do not contribute to the 401(h) account. Employer contributions or qualified transfers to the 401(h) account are determined annually and are at the discretion of the Plan Sponsor. Certain of the plan's net assets are restricted to fund a portion of postretirement health benefits for retirees and their beneficiaries in accordance with IRC **[Section]** 401(h).

H. Reconciliation of Financial Statements to Form 5500[8]

The following is a reconciliation of net assets available for pension benefits per the financial statements to the Form 5500:

	December 31,	
	20X1	*20X0*
Net assets available for pension benefits per the financial statements	$ 7,940,000	$ 7,180,000
Net assets held in 401(h) account included as assets in Form 5500	1,072,000	966,000
Net assets available for benefits per the Form 5500	$ 9,012,000	$ 8,146,000

The net assets of the 401(h) account included in Form 5500 are not available to pay pension benefits but can be used only to pay retiree health benefits.

The following is a reconciliation of the changes in net assets per the financial statements to the Form 5500:

	For the Year Ended December 31, 20X1		
	Amounts per Financial Statements	*401(h) Account*	*Amounts per Form 5500*
Net appreciation in fair value of investments	$233,000	$10,800	$243,800
Interest income	293,000	80,200	373,200
Employer contributions	740,000	40,000	780,000
Benefits paid to retirees	740,000	10,000	750,000
Administrative expenses	50,000	15,000	65,000

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8 The reconciliation of amounts reported in the plan's financial statements to amounts reported in Form 5500 is required by ERISA.

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